1st Quarter 2019 Investor Newsletter

January 2019

MANOLE CAPITAL MANAGEMENT

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A Look Back, Both Right & Wrong:

Before we address the bigger issues of today, we like to discuss where our predictions were both "right and wrong" from a year ago. To review our pre-2018 thoughts and last year's 1st Quarter 2018 newsletter, click here.

2018:

2018 began with a global synchronized recovery and extreme bullishness. The economy was headed higher, fueled by over 20% earnings growth. The markets were at historically low volatility levels, with a clear "risk on" feel.

Rarely has a flipped calendar marked such a pronounced change in market dynamics and investor psychology. Just a year ago, there was giddiness regarding equities following the tax cut. Even more hype was laid on cryptocurrencies, that were soaring higher. Lastly, volatility was non-existent, and some thought the VIX (a) would stay suppressed forever.

Following the November 2016 election of President Trump, we were expecting a dramatic increase in volatility. We couldn't have been any more incorrect. 2017 went down as the lowest average VIX for any calendar year in its history. If 2017 was a year of placidly rising markets, 2018 was a year marked by large gyrations and market swings. In fact, the VIX climbed 130% last year, making it the biggest annual increase in volatility since the VIX was created in 1993.

A year ago, "we stuck to our guns", with expectations for heightened volatility. We were spot on in February/March and then quite right in September through December (see daily 2018 VIX chart above). The VIX spiked dramatically higher with record volumes. With our portfolio heavily exposed to exchanges and transaction-based business models, results were positively impacted from these wild market swings.

As we begin 2019, we are 180 degrees different from a year ago. Some are forecasting a synchronized global slowdown with earnings only modestly up this year, and sentiment has definitely become much more bearish. Furthermore, high volatility and large market swings seem to be daily occurrences, not uncommon ones.

Taxes:

While one year may not be enough time to fully judge the tax-reform package effects, we strongly believe that it has positively impacted both personal and corporate results. The anniversary of the tax law is a good time to evaluate its initial impact. Corporate tax rates, falling from 35% to 21%, make US businesses much more globally competitive. For the first nine months of 2018, annualized economic growth was +3.3%, which puts the year on track for the best growth in 13

years. We should not forget that the prevailing wisdom before this current growth was that the US economy was in a "new normal" of 2%. Just +1% extra in growth, on a $20 trillion economy, equates to a huge difference in terms of deficit reduction, wage growth, et cetera.

With $2 trillion of overseas cash, many worried that companies would simply use their "found" cash to re-purchase their own stock. Roughly ¼ of that cash hoard ($571 billion), has returned to the US and companies are clearly investing in America. Intellectual property investment is up +10% annualized, its highest level since 1999. As of the 3rd quarter, real capital expenditures were up by $180 billion from the end of last year. Real, private non-residential business fixed investments are up +16%, to the highest level since 1993. We believe that incentivizing investment upfront, through 5-year, 100% expensing of new equipment / facilities, will encourage business growth.

In addition, tax reform significantly helped American families. Raising the standard deduction to $24,000 was just the beginning. According to Moody's research, disposable income is up +2.7% year-over-year, personal savings are up +6.3%, and consumer spending has increased by an average of +2.7% over the last 4 quarters. Job openings reached a record high in August and there are more openings than unemployed people looking for jobs. This strong demand for labor has the benefit of raising wages, which funnels through the economy. Is the Tax Cut and Jobs Act of 2017 (TCJA) perfect? This is Washington, where no single piece of legislation is ever perfect.

We believe that the US does not have a revenue problem; it has a spending problem. While we personally would have liked some spending cuts to help offset the deficit, we applaud an attempt to fuel the economy, stimulate job growth and improve average wages for the lower-and-middle class American worker.

"TINA" or There Is No Alternative (to US Equities):

For most of 2016 through the January of 2018, it did not matter where or what investors put their money into. We likened that environment to "a rising tide, lifting all boats." From mid-May to the peak of the market in September, there was a decoupling of American stocks. The US equity market was up over +7% versus the rest of the world, which was down by over (3%). However, as the 4th quarter of 2018 showed, the US could not avoid worries of a global downturn forever. Chinese tensions came to boil and the S&P 500 lost (10%) in six short days, right before Christmas.

The S&P 500, our best reflection of the overall US equity market, was down (4.4%) for 2018. While this modest decline was significantly worse than the excellent +21.8% return in 2017, we continue to believe ***there is no alternative*** (or TINA) to the US equity market. Global stock markets fared much worse than those of the US last year. The Stoxx Europe 600 index fell (13%) last year, despite many experts claiming Europe was due for a rebound. The UK is still wrestling with its Brexit issues (b), and the FTSE 100 declined by (12.5%). Japan's Nikkei 225 Stock Average fell (12.1%) and China's Shanghai Composite declined by (24.6%). Ballooning leverage, growing debt to GDP levels, global trade tensions and weakening growth rates in certain emerging and developing markets, lead us to believe that the US equity market remains the "nicest house on the block."

If you were a commodity investor, 2018 was just as awful. Lumber was down (25.8%), sugar declined (20.7%), and copper dropped (19.9%). The energy markets were equally challenged. Gasoline prices fell (26.4%), crude oil fell (24.8%), diesel fell (19.0%), while natural gas was the best of the bunch, essentially flat. In the 4th quarter alone, US crude prices fell (38%), their worst quarter since 2014, when prices for West Texas Intermediate (WTI) fell below $30 per barrel. US production is climbing, and we now are the world's top oil producer. Iran sanctions recently were triggered, causing supply uncertainty. Saudi Arabia kicked off the new year with a new OPEC agreement to cut production, while Russia remained a wildcard. The market is clearly wrestling with gyrating supply/demand issues.

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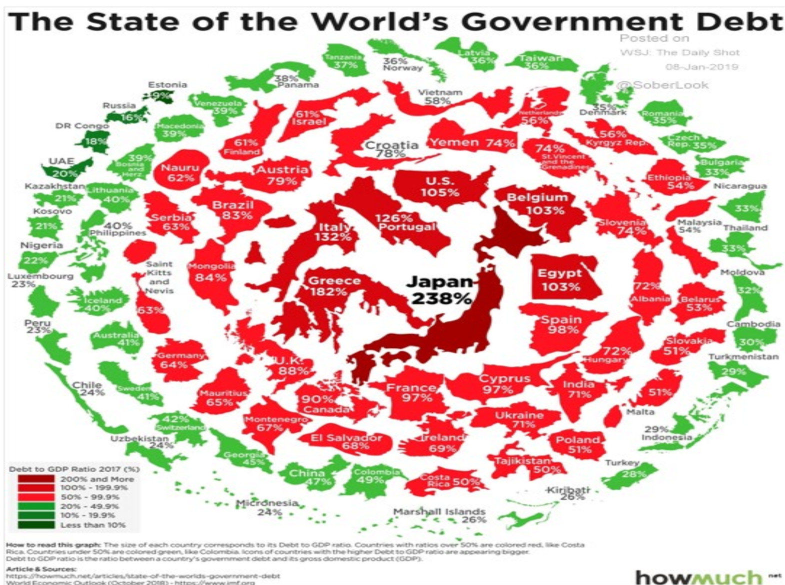
As secular growth investors, we have always viewed energy as the ultimate cyclical product. For example, the energy sector was the single best area of the market in 2016, up +28%. Then, in 2017, it was only one of two sectors that declined for the year. In 2018, as represented by the XLE, energy fell (18%). After hitting an 18-month low in late December 2018, energy has now posted 10 straight days of gains. There is one certainty for energy investors - expect and anticipate extreme volatility.

The world has never had as much debt (see chart) as it has right now, standing at nearly $250 trillion. According to a recent Citigroup report, this is 3x the debt level of two decades ago. US household debt (comprised of credit cards, auto and student plus personal loans) is about to top $4 trillion for the first time.



According to MeasureOne, student loans exceed $1.5 trillion, with 92% of it owed to the federal government. Non-mortgage debt, particularly credit-card loans, remain our biggest worry. For perspective, according to Experian, the average US household owes $6,826 on credit cards, nearly 2% higher than last year. For the top eight card issuers, losses are (3.16%) and trending higher.

The market has never had a zero-interest rate environment, and we have no idea how it will respond once quantitative easing ultimately ends. The real test, for the fixed income market, will be seen over the next 1 to 2 years. Global central banks are beginning to raise interest rates and alter their easy money policies. While the Fed has telegraphed its intentions, some remain concerned with the shrinking of its $4.1 trillion portfolio of bonds. With the Fed rising interest rates four times last year, debt instruments had their worst year in decades. Fixed income investors were looking for "safe assets" and ended 2018 disappointed. Long-term Treasury bills were down (1.9%) last year, US TIPS fell (1.3%) and high yield bonds declined (2.1%). Overall, fixed income investments struggled last year and the short-term looks just as gloomy.

Investing Philosophy:

Mike Tyson, former boxing champion, once said "everybody has a plan until they get punched in the mouth." We love this quote, because it can be quite appropriate for the investing world too.

The (19.9%) drop in the S&P 500, from its peak in September, may not meet the traditional definition of a bear market, unless you round up. However, this harsh fall did bring back some nervousness and volatility. As you can see in this chart, the S&P 500 has seen 17 pullbacks of at least 5% since March of 2009, six of which have been greater than 10% declines.

While the stock market has rallied roughly +10% from its recent lows, there remains significant questions and uncertainty. Over the last decade, the strong equity market has led many to feel like they "missed out" on this historic bull run. Over the last year, these same investors are now concerned about seeing some gains melt away.

Many investors fail to do a deep investment analysis of their holdings, until a hard punch forces them to pay attention. Are your investments and portfolio in sync with your risk tolerance and financial goals? Each and every day, we focus our attention on maintaining a portfolio of great FINTECH companies, rather than guessing when the next downturn might occur. We do deep dives into company fundamentals, as well as build our own models. Instead of churning portfolios and searching for momentum, we remain disciplined to our strategy. Due to our focus on free cash flow, we believe we have built a resilient portfolio that can withstand elevated volatility and a significant downturn.

With the market's recent sell-off, we believe now is an excellent time and opportunity to invest in America. Some may take a contrarian approach and argue value stocks are due to outperform growth companies, for the first time in a decade. Others claim small caps will rebound and outperform, after struggling in 2018. Instead of making macro decisions, we will remain disciplined and follow our 20-year strategy of doing bottoms up, fundamental research. We will continue to identify and invest in wonderful FINTECH companies at attractive valuations with certain key characteristics. The critical traits that steer our investment process and philosophy are listed below.

Key Manole Capital Investment Characteristics:

- High barriers to entry and a "moat" around the franchise
- Market share leaders with durable competitive advantages
- Pricing power and flexibility to withstand market volatility
- Recurring revenues and sustainable business models
- Strong balance sheets with predictable free cash flow
- Excellent management teams properly allocating capital

Looking Forward To 2019:

Let's start with the obvious – the US political system is a mess. We believe gridlock is here to stay and bi-partisan dreams are just that, dreams. With the Democrats taking control of the House of Representatives and Republicans still controlling the Senate and White House, we expect little to get accomplished.

Why are we so pessimistic about our government? President Trump's biggest topic nowadays is building a wall and providing border security. To keep this campaign promise, he has forced what is now the longest government shutdown in US history. Democrats are adamant that they will not support Trump's wall or even support his re-defined "steel barrier."

We strive to remain independent on political issues, but isn't it ironic that in 2013, under President Obama, that all 54 Senate Democrats voted for $46 billion in border security, including 700 miles of border fencing? Chuck Schumer and Elizabeth Warren both voted yes, but now they are steadfast in their opposition. Sorry, but in our opinion, this is the definition of partisanship.
On the flip side, we find fault with Republicans too. It was not a wise decision for President Trump to take full ownership of the government shutdown and be responsible for over 800,000 people not getting paid. In addition, it is estimated that each week of the shutdown costs US GDP by (0.1%).

The current dialogue is that President Trump will declare a "national emergency," which would allow him to use a statutory provision in the National Emergencies Act of 1976. If invoked, the Defense Secretary can "undertake military construction

projects, not otherwise authorized by law, that are necessary to support such use of the armed forces." Because President Trump has already deployed troops to our southern border, he theoretically could allocate unobligated military construction funds for a wall.

While he may have the legal authority to do this, it is probably not wise to act without Congressional consent. Conservatives, who strongly believe in the separation of powers, will view this as a terrible precedent. True constitutionalists will cite Article I, Section 9 to counter this emergency action. We do not like any presidential action bypassing Congressional approval, certainly not one that is done to fulfill a campaign promise. We expect legal proceedings from House Democrats arguing that this usurps Congress's appropriations power. Once again, we find it ironic that House Republicans sued the Obama Administration in 2015 for spending unappropriated funds for some of his ObamaCare subsidies. We see culpability on both sides of the aisle. In our opinion, this shutdown fight is just a "test of power", especially since $5.7 billion is approximately 0.1% of the federal budget.

Washington, DC, is an amazing city, filled with great museums, restaurants and monuments. However, its politics can be terribly frustrating. While we can hope a bipartisan infrastructure bill can pass over the next year and possibly even some immigration reform, we remain quite skeptical that anything will get done in Washington this year. This is why we prefer to focus on the equity markets and our area of expertise, FINTECH investing.

The Fed & Interest Rates:

In terms of interest rates, we always like to gauge market sentiment by viewing the CME's expectations, viewed here. Just a few months ago, Fed officials were hinting at four rate hikes in 2019, following four rate hikes in 2018. In fact, Fed-fund futures were at 90% that rates would be higher than they are now. Now, there is a huge reversal of expectations with a 53% probability that Fed officials will cut rates by the end of 2019. These wild swings in expectations are music to our ears, considering our ownership of the derivative exchanges (where interest rate futures and options trade).

Fed Chairman Jerome Powell needs to walk a fine line between remaining "data dependent" and insuring the Fed stays "independent" from harsh criticism by the White House. Now, with elevated volatility and more uncertainty, expectations have been properly (in our opinion) lowered. The Fed can and will make changes to its outlook. For example, back in 2016, the Fed changed its mind due to a Chinese market slowdown. The Fed initially guided the market to anticipate four rate increases, only to lift Fed funds one time.

Chairman Powell recently said, "We will be prepared to adjust policy quickly and flexibly and use all of our tools to support the economy should that be appropriate." He later added that "…the appropriate extent and timing of future policy is less clear. Against this backdrop, the Committee could afford to be patient about further policy firming." In addition, Dallas Fed President Robert Kaplan said, "The central bank should hold off on additional rate increases until it determines whether rising anxiety about the economy and financial markets is temporary or a sign of something more troubling."

We couldn't agree more when Chairman Powell recently said "…concerns over escalating trade tensions, global growth prospects and the sustainability of corporate earnings growth were among the factors contributing to the significant drop in US equity prices." During his Economic Club of Washington interview, Chairman Powell said the word "patient" or "patiently" five times. In our opinion, the Fed will take a more dovish approach to future interest rate increases this year. Is it fair to question whether the Fed is more "data dependent" or "market dependent"?

The US has a healthy labor market, inflation is tame and the economy continues to steadily grow. Higher interest rates are needed to slow an economy growing "too fast" or to help offset runaway inflation. We do not believe either of these issues is a concern today.

The Biggest Issue for 2019 Is China:

In our opinion, the ongoing uncertainty of the trade dispute is the single largest market concern. President Trump has the authority and power to settle trade issues. His administration can resolve the US/China dispute and alleviate the biggest worry facing the equity markets. Ongoing threats of punitive tariffs continue to cause equity markets to slide. Time will tell if this is just a President Trump negotiating tactic, but the market is certainly apprehensive and concerned.

Emblematic of this continuing back-and-forth, following a positive dinner at the G20, Beijing agreed to purchase US soybeans and to lower the levy on our automobiles from 40% to just 15%. While both measures by China are an attempt to reverse tensions, it remains to be seen if these minor changes will be enough to get President Trump's approval. If the next three months of negotiations do not settle this dispute, the US will raise its tariff on $200-billion of Chinese goods from 25% from 10%.

Just last month, we published our thoughts on this critical trade issue in a 14-page research note. If you would like to read/re-read our thoughts on China, just click here. By the next time we publish our next quarterly newsletter in April, we should have a much better and clearer picture of the US & China's trading relationship.

Current Events:

Back in September, estimates for 4th quarter S&P 500 earnings were year-over-year growth of +17%. Some retailers have hinted at weak holiday sales and other companies are claiming Chinese trading tensions are impacting revenues. This has caused sell-side analysts to lower earnings expectations to just 11%.

In early January of 2019, For the first time in more than 15 years, Apple (ticker AAPL) cut its quarterly revenue estimate and forecast. It cited weakness in iPhone demand, but AAPL's Chinese smartphone market share has steadily fallen from a high of 12.5% in 2015 to just 7.8% today.

Earlier this summer, AAPL was the first company ever to reach a market capitalization of $1 trillion. From 1926 through 2018, only ten US companies have ever ranked as #1, in terms of market capitalization. Currently, Amazon (ticker AMZN) has become the eleventh company to hold the position as "king of the mountain". Typically, these types of size milestones are not the best indicator for positive, future performance.

For perspective, AMZN is now roughly 3% of the total value of US stocks. However, back in 1932, AT&T was 13% of the entire US market and IBM in 1970 was 7% of the total market. According to a recent Wharton Research Data Service report, once a company hits #1, it typically underperforms the overall US stock market, by an average of 6%, over the next five years. Want more proof? Back on October 3rd, AAPL's stock peaked in value at $233.47/share. Since that price, AAPL has fallen by over (39%). To put this decline in perspective, AAPL has lost over $400-billion in value or an amount that is larger in value than 496 members of the S&P 500. This decline in AAPL is roughly the same size as the entire valuations of JP Morgan (ticker JPM) or Wal-Mart (ticker WMT).

Optimism (The Glass Is More Than ½ Full):

What does the current mood indicate? Judging by investors' words and deeds, it is obvious the market is rather gloomy. Some worry that recent manufacturing and consumer-confidence numbers indicate that our 9-year economic expansion is coming to an end. We disagree.

In the US, unemployment at 3.9% is near a 50-year low. More than eight million jobs were lost during the Financial Crisis, but job creation has been positive for an impressive 99 straight months. Just last month, the Labor Department found

that the US added an impressive 312,000 new, non-farm payroll jobs. This is significantly above the 5-year average gain of 215,000 jobs per month.

More than 500 companies, covering 6 million employees, have recently announced wage increases, bonuses, new hiring's and/or enhanced benefits. Just as important, average hourly wages are rising, and are up by +3.2% year-over-year. As the chart shows, this increase represents the largest full-year gain in over a decade.

In our opinion, consumers drive our economy. If the labor market remains tight and wage growth continues to expand, consumers will continue to spend. According to MasterCard research, overall retail spending, across all payment types (both cash, check and card), was the strongest experienced in the last six years. This holiday season, MasterCard believes spending grew over +5.1% to $850 billion, while online shopping experienced an impressive +19.1% growth year-over-year.

From a macro perspective, quality healthcare continues to improve, and the American Cancer Society just reported that cancer deaths have dropped by 27% over the last quarter century. That equates to 2.6 million fewer cancer deaths. Divorce rates are down, graduation rates are up, and violent crime is falling. Globally, child mortality and illiteracy have plummeted, while life expectancy has materially improved. According to the Brookings Institution and World Data Lab research, ½ of the world's population is now "middle class or rich." This equates to 3.8 billion people being significantly better off than in 1980, when ½ of the world lived in "extreme poverty" (c). Research shows that disease and deadly violence are way down. On the disease front, improvement comes from globalization, not necessarily through miracle drugs. As people get better paying jobs and markets open up for trade, incomes rise which permits a higher (and cleaner) quality of life. The world's largest population is China and it has experienced a 25x per person rise in income over the last 40 years. India has the world's second largest population and its economy just passed that of China, in terms of growth.

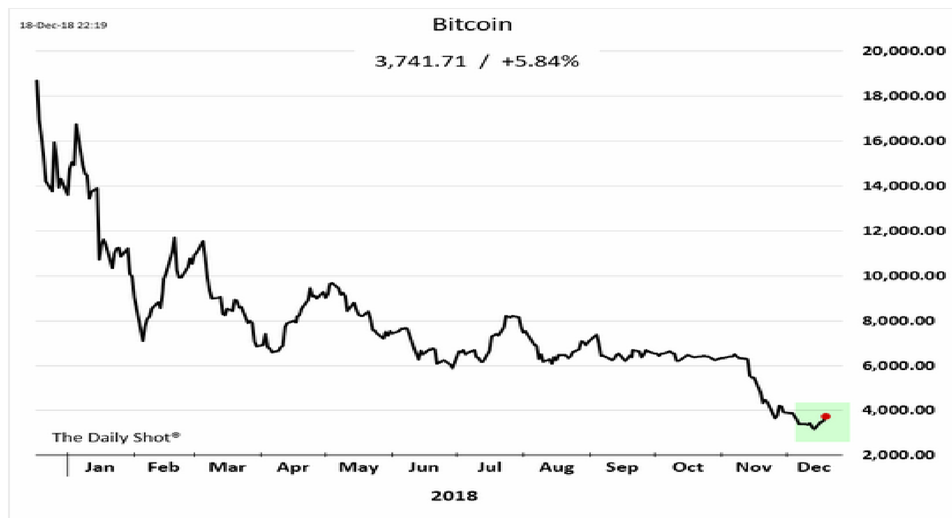
We believe the recent market sell-off reflects more short-term thinking than current research and positive, long-term indicators confirm. We agree with Stephen Stanley, the chief economist at Amherst Pierpont, who recently stated, "The consumer is on fire, and, I'm sorry, if the stock market is trying to signal that the US economy is crumbling. Mr. Market is wrong." Strong US household income generates consumer spending, which then propels our economy higher.

Our Published Research:

Over the course of 2018, we were quite active on publishing research. Starting in December of 2017, we published a 9-page note (click here to read it) highlighting the flaws we saw in bitcoin. Our thesis was simply that we did not and still do not believe bitcoin acts as a viable currency. As a method of payment and a store of value, it fails on both counts. Right after we published our bearish note, bitcoin soared from $11,000 to nearly $20,000. How's that for bad timing?

During 2018, bitcoin got crushed, finishing the year down roughly 70%. We were a little early in calling bitcoin "a bubble waiting to burst," but our rationale and thesis were sound. Perma-crypto bulls will claim that bitcoin has still tripled from under $1,000 from the end of 2016.

Even if we are incorrect, and bitcoin is a viable currency, our strategy is still sound. We invest in wonderful FINTECH companies, not currencies like the dollar, pound, euro, peso, yen, etcetera…



Also in August, we published our thoughts on what might happen during the important mid-term elections (click here). As that note indicted, the market rarely performs well during the year of a mid-term election. For example, in mid-term election years, under President Bush & Obama (in 2002, 2006, 2010 and 2014), the equity market experienced corrections of (34%), (8%), (16%) and (7%) respectively. However, the market rewards investors the year *after* a mid-term election. The market performance, 1-year after that mid-term correction, was +34%, +24%, +31% and +9%. This obviously bodes well for 2019.

In November, we published our thoughts on the US economy (click here), analyzing many important macro conditions. Historically, we publish our macro thoughts in these quarterly newsletters, but we decided to focus on the 10-year anniversary of the Financial Crisis, with our 4th quarter 2018 newsletter. Click here for that 14-page piece of research.

In addition to macro and thematic research notes, we continued to publish stock-specific calls. In February, we once again wrote up our thesis for owning a large position in CME Group (ticker CME). On the positive side of the ledger, CME's stock price rose +21% from our publishing. In June, we published the risks we see in the credit card issuing space, with our note titled "Are You Swimming Naked" (click here).

On the less successful side of the equation, back in August, we wrote a detailed, 12-page note on the long-term opportunity we saw in Blackrock (ticker BLK). Our timing could not have been worse with the stock falling by (16%) from the date of its publishing.

Conclusion:

We apologize for being optimistic. If the world is getting much better, why does everyone (especially newscasters) seem so miserable? Some might argue that it is careless to celebrate how the world is improving when there are still things like global warming, opioid addiction, nuclear proliferation, obesity, and other matters to tackle. In our opinion, today's problems are smaller than the issues the world has already overcome and solved. For example, a front-page article, on January 9th, 2019, in the Wall Street Journal, discussed the rising popularity of gold flaked food and $26 cappuccinos sprinkled with 24-karat gold. We believe that patience and through technological improvements, the world will address and solve many of these current matters. Are things perfect? No, but things are quite good and getting better each and every day.

The US market is performing well, and the underlying fundamentals look favorable and encouraging. Despite the negative sentiments on the news, the numbers tell a completely different story. The latest National Association of Manufacturers survey found that the US economy is operating at "unprecedented levels of optimism, spurred by improvements in the global economy and, in particular, by pro-growth policies such as tax reform and regulatory relief." While some are predicting a synchronized global slowdown, we forecast continued, steady growth. While there is no doubt that earnings in 2018 were boosted by the tax cuts, growth ought to continue this year. The rate of change may slow, from 3+ plus percent growth, but lifting a $20 trillion economy by over +2.5% is still healthy. In our opinion, current bearish sentiment more than discounts the slowing domestic and global economy.

In fact, we believe this year will be quite positive. As we continue to say, the market hates uncertainty and the unknown. To quote Dave Donabedian, the chief investment officer at CIBC, "The stock market in 2019 is desperately seeking clarity." Not if, but when the US and China resolve their trading issues, the equity market will rally. Just this week, US Commerce Secretary Wilbur Ross said there's "a very good chance that we'll get a reasonable settlement that China can live with, that we can live with, and that addresses all the key issues."

Whether you love or hate President Trump, his game plan for re-election is fairly simple. He will run on a strong economy. To quote James Carville, Bill Clinton's successful 1992 campaign manager, "It's the economy, stupid!" President Trump will need to resolve the current Chinese issue, be the "champion" of a robust economy (i.e. jobs), and maybe most importantly, be the leader-in-charge during a positive stock market. President Trump will need to change the market from its current "Trump Slump", back to that post-election "Trump Bump."

To be perfectly clear, we do NOT expect a recession in 2019. From a macro perspective, the inflation outlook remains subdued. This should give Fed Chairman Powell enough evidence to take a more dovish stance. The US Treasury 2-year versus 10-year yield curve remains positive and has not inverted. While EPS will slow, it should remain positive from solid, economic activity. We see great opportunity in our FINTECH portfolio, and we remain diligent to our strategy, philosophy and process. At this point in the market cycle, managers must be focused and disciplined. The recent market decline has presented us with some very attractive valuations (d). As we look forward to 2019, we absolutely expect one constant: more volatility.

Should you wish to speak, we are always available. Have a happy, healthy and wonderful 2019.

Warren Fisher, CFA
Manole Capital Management

If you want a hysterical (and tremendously sarcastic) recap of 2018, just click here. Dave Barry, of the Miami Herald, does a month-by-month recap that is a non-financial "must read".

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Interesting Statistics, Facts & Quotes:

- According to "The Stock Trader's Almanac", January is very important for determining the year's performance
- Since 1950, January has been the S&P 500's best single month, averaging a +1% return
- Since 1946, the S&P 500 has finished the month of January higher in 62% of the time
- If January is positive, the S&P 500 posts annuals gains 85% of the time

- According to Putnam Investments, market timing is dangerous to attempt
- A $10,000 investment in the S&P 500, over the last 15 years, would have grown that sum to $30,000
- If an investor missed the 10 best days, profit gets cut by ½
- If an investor missed the 20 best days, it would erase *all* of their gains
- Just ½ of 1% of trading days, over a 15-year period, can determine all of your investment results
- The day after Christmas, the Dow Jones Industrial Average experienced its single largest 1-day gain of 1,086 pts

- To navigate market upheaval, investors have to stick to their plan, rather than react to wild gyrations
- Here are some wonderful quotes, which help articulate our unique investment approach:

Warby Parker's CEO	*"Win by going deep, not wide."*
Jeremy Grantham, investor	*"Re-invest when terrified."*
Warren Buffett, investor	*"The rearview mirror is always clearer than the windshield."*
Gert Boyle, Columbia Sportswear	*"Don't get caught up on should've; yesterday won't happen again."*
Jim Rohn, motivational speaker	*"Discipline is the bridge between goals and accomplishments."*
Michael Jordan, basketball champ	*"The minute you get away from the fundamentals, whether it is technique, work ethic or preparation, the bottom can fall out of your game."*

- According to a recent Credit Suisse report, there are fewer US public companies today than in 1976
- Buybacks are often maligned, as they do little to boost long-term profitability
- However, share re-purchases help a Board facilitate capital from a company back to its shareholders
- While we like steady dividends, academia preaches the best use of capital is to re-invest back into your company
- Christopher Anderson, of the Univ of Kansas, found that companies increasing cap ex actually underperform
- Starting back in 2006, he found that co's with the biggest cap ex increases have underperforming stk prices
- From analysis performed by Merrill Lynch, re-investing back into your own company shouldn't be priority #1
- Since 1986, co's with the highest capex-to-sales ratios underperformed the S&P 500 by an annual avg of 2%
- In its simplest state, a buyback is a wise decision if the value received exceeds the company's cost of capital
- Why is mgmt re-investing back into itself, because it is "cheap" (and lowering share count) viewed as negative?
- While some applaud acquisitions, we often prefer to see buyback of a known entity vs an unknown deal
- More than 1/5th of companies in the S&P 500, by an average of 14%, have boosted their dividends in 2018
- Historically, February is the busiest month of the year for dividend increases

- Estimates believe that India, by 2024, will be the most populous country in the world (surpassing China)
- Today, only 24% of Indians own a smartphone
- It currently has 820 million debit cards, most of which are used for ATM / cash withdrawals
- India is still a very cash centric country, with 16 ATM's per 100k Indians

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Footnotes:

a) The VIX, known as the market's fear gauge, measures the volatility of option on the S&P 500

b) With just 2 months until the UK is supposed to leave the EU, Britain has numerous issues. Prime Minister Theresa May continues to suffer defeats over legislation. In addition, the Labour Party is getting ignored when it calls for fresh elections. Brexit is debated, but no consensus is found.

c) The World Bank defines those consuming less than $2/day as living in "poverty"

d) According to FactSet data, the 2019 P/E multiple is 14.2x, a level not seen since 2013 and the technology sector saw its forward P/E contract from 18.3x (back in September) to only 15.2x now

Disclaimer:

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