



August 25, 2017

There's something cathartic about watching cars head north toward the Currituck bridge on the last Saturday in August. Happy they came, hope they had a great Outer Banks experience, but always find myself sort of relieved nonetheless...

Wanted to jiggle my correspondence schedule to be able to comment on earnings season after the bulk of corporate earnings for the quarter were in, so I apologize for the lapse since I last wrote. We're in such a bizarre time in some ways--there's a deluge of some of the most otherworldly news--yet corporate earnings for sectors other than retail have been good to excellent.

Why is that? Well, interest rates are still low, reducing corporate borrowing costs. Europe and Asia are healthier than they've been in 10-12 years- so more economic activity is taking place abroad. Inflation has not been an issue-if anything there is a persistent overhang of disinflation if not outright deflation in some sectors. And second quarter fiscal year 2017 earnings season has been the best period in the last eleven years, after first quarter 2017 was the best in six years.

We should talk about increased productivity and generally low unemployment and disinflation and low interest rates for a minute: I think they're all intertwined due to factors like artificial intelligence and high-speed internet and widespread globalization (irrespective of 45's view on this matter), and indeed, if the factors are intertwined, then there's a good chance the US economy is doing better than some of the data points suggest. The confluence of events has certainly helped the performance of the capital markets. Now this doesn't mean to imply that every resident is living in a job rich environment or that every business sector has a green light, but clearly investment capital is being put to work around the world, almost in spite of the latest noise from Washington DC or Moscow or North Korea.

Support and Resistance



Here are updated charts for the S&P 500 on a weekly (left) and daily (right) closing basis. We are still in an uptrend as evidenced by the blue lines I added to these charts. After setting new

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highs at the beginning of July the SPY (which is a proxy for large capitalization US stocks) has pulled back just a bit- though this is not surprising in August and September, historically two of the seasonally-weakest months of the year. The S&P 500 is up 10.4% year to date through Friday 8/25/17.



Here are weekly (l) and monthly (r) charts of the 20-30 Year US Treasury bond ETF, symbol TLT. Faithful readers know that I've had a strained relationship with long-dated bonds in an era of historically low interest rates, but of course the market doesn't care what I or any other participant think. The weekly chart shows improved price action for this security in 2017, meaning that money is flowing into the sector; while the monthly chart shows that TLT remains in a long-term uptrend. Upward prices for long bonds are causing interest rates to fall, which explains how the yield on the 10- year US Treasury (which is used as a benchmark for home mortgage rates and other interest rate-sensitive products) closed at a pretty-darned-low 2.16% on 8/25/17.

The Retail Apocalypse

The worst performing market sector of 2017 has been retail. Many companies in the sector have missed earnings expectations and have issued lowered forward earnings guidance as consensus has it that Amazon (AMZN) is going to destroy the whole sector.

There are a few winners in the space- Home Depot(HD), TJ Maxx(TJX) and Dollar Tree (DLTR) are holding up well, and Lowes (LOW) has been reasonably strong. Our Tanger Outlet Malls (SKT) position has pulled back to the point that the stock sports a 5.6% dividend yield and is thus on our watch list to add to our position, as are Costco (COST) and Walmart(WMT) along with the other names listed above. We've also established positions in Nike (NKE) and have nibbled at CVS (CVS).

Game Plan

We've made a few large investments this year and have otherwise been systematically trimming some dead wood (Disney DIS and Bojangles BOJA among others) and reallocating those funds while maintaining our overall market exposure. We've taken new positions in global payments processor Vantiv (VNTV) and have been steadily accumulating video game maker Take Two Interactive (TTWO), which has turned out to be quite an investment. We've nibbled in Altria (MO) on its recent weakness and have added to Quintiles IMS (Q) and Ameritrade (AMTD) positions since my last note. The tone of the market is still positive, although I anticipate some

seasonal weakness in September. Most client portfolios are outperforming the S&P 500 over the 2016-2017 period, but there is no guarantee that that outperformance will persist.



Take Two Interactive (TTWO), weekly

Quintiles IMS (Q), weekly

Supplemental Links for Interested Readers:

Zweig: Questions to Ask Your Financial Adviser <http://ritholtz.com/2017/08/zweig-questions-ask-financial-adviser/>

The Unsolvable Puzzle: Morgan Housel <http://www.collaborativefund.com/blog/the-unsolvable-puzzle/>

The Benefits of Playing Music Help Your Brain More Than Any Other Activity <https://www.inc.com/john-rampton/the-benefits-of-playing-music-help-your-brain-more.html>

Wells Fargo's Culture of Avarice: <http://mobile.reuters.com/article/amp/idUSKCN1AY21W> and <http://consumerist.com/2017/08/02/wells-fargo-subpoenaed-over-alleged-insurance-scheme-that-resulted-in-25000-vehicle-repossessions/>

Important Dow Milestones: <http://ritholtz.com/2017/08/important-dow-milestones-one-chart/>

OpenAI bot remains undefeated against world's greatest Dota 2 players <https://techcrunch.com/2017/08/12/openai-bot-remains-undefeated-against-worlds-greatest-dota-2-players/amp/>

Foxconned

https://www.theatlantic.com/business/archive/2017/07/foxconned/535170/?utm_source=feed

The secret to a lasting marriage <https://www.inc.com/minda-zetlin/the-secret-to-a-lasting-marriage-heres-what-1500-h.html>

After 10 years as a financial planner, I've realized almost everyone gets the same thing wrong about money http://www.businessinsider.com/what-it-means-to-be-wealthy-2017-7?utm_source=feedly&utm_medium=referral

Emotional preparedness for college <https://www.inc.com/amy-morin/a-survey-of-1502-college-students-revealed-this-is.html>

How And Why To Work On Your Emotional Intelligence
<https://www.dumblittleman.com/work-emotional-intelligence/>

These Are the 8 Fundamental Principles of Great Writing <https://www.inc.com/glenn-leibowitz/these-are-the-8-fundamental-principles-of-great-wr.html>

Ken Burns' American Canon <https://www.newyorker.com/magazine/2017/09/04/ken-burns-american-canon>

What is globalization? (video) <http://ritholtz.com/2017/08/what-is-globalization/>

Ceviche with Avocado and Grilled Corn
http://www.simplyrecipes.com/recipes/ceviche_with_avocado_and_grilled_corn/amp/

Thanks for your support over the years, and happy Labor Day!

Signing off from Nags Head,

Will W. Woodard, III, CFP®

Please note that the above commentary is presented for informational purposes only.

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