

"Cup of Joe"

It's been awhile since our last market update and there's plenty to discuss as we come into the holiday season. Trade tensions, the state of the economy, portfolio performance and the acquisition of *TD Ameritrade* by *Charles Schwab* are just some of the hot-button topics that we will cover. In addition, we will provide our thoughts on 2019, as well as the markets moving forward.

First, let's discuss the acquisition of *TD Ameritrade* and highlight a couple very important points. Recently, *Charles Schwab* acquired *TD Ameritrade* in an all-stock deal worth $26 billion. We foresee the possibility of an enhanced customer/client experience that would benefit our client base and provide great synergies between the two giant clearing firms. While we will be monitoring the transition, we want to stress that we are in the very early stages and that we will be keeping you, our clients, informed as we know more. Some points of emphasis:

- *TD Ameritrade* is our custodian bank. We do **NOT** work for them - **they work for us.**
- *Chapel Hill Investment Analysts* is a 100% independent investment management firm.
- The acquisition is still in the very early stages and has yet to gain regulatory approval.
- No changes are on the horizon until late 2020, at the earliest.

Next, our view on the state of the economy and the possible new round of tariffs that could take hold December 15th. Currently, we feel as though we are in what some would call a "Goldilocks scenario". We have low interest rates, low inflation, full employment, a patient and accommodative Federal Reserve and a President who wants to get re-elected. From a stock market standpoint, we would categorize the current market environment as stable and fairly-valued relative to how low interest rates are currently. We also do not see complacency among our clients and investors in general. In the past, when times of great market gains took place, many investors kept investing with the thinking that they couldn't lose money ("irrational exuberance"). Today, what I find when talking with clients is the question of, "When will the market fall again?". This is not irrational exuberance and it's predicated on their memories of 2008. The crash of '08 still has a psychological effect on investor sentiment and, in our opinion, is a positive. We do not want the markets to overheat. Slow and steady wins the race. When markets rise too fast, that's when valuations become too rich, outpacing what the companies are actually doing and selloffs tend to follow. When markets rise slowly, it gives the economy time to grow and provide earnings growth to back up the gains.

While our portfolio performance has been stellar, we are not turning a blind eye to the possibility of a small market pullback. Keeping in mind that it's a fool's game to try to time these events, we would view any correction as a positive, allowing the opportunity for the immense amount of cash currently sitting on the sidelines to be invested. As fundamental investors, we also know that, at any time, the U.S. and China could strike a deal, causing the market to go higher. It could happen with a tweet. Therefore, we remain vigilant in our long-term outlook on the markets as a whole.

An event that we wouldn't like to see would be new and/or more tariffs. Again, tariffs are taxes. And taxes make the goods consumers purchase more expensive. And with more tariffs, we feel as though the benefit of the past tax cuts would be nullified. What would be acceptable is a cease-fire, so to speak. What would be GREAT would be a phase-one deal that provides the U.S. with better protection against Chinese "IP" theft and unfair trade practices. Both political parties agree that this is the most important positive outcome possible from the trade negotiations for the U.S. economy, regardless of the short-term market volatility that we may and have been experiencing. If we don't get anything accomplished long-term and just sign a so-so deal, this would still juice the markets in the short run.

Why do we think these issues will turn out positive? Because we are in an election year. And the President is out of bullets to juice the economy. A positive market helps, and a negative market makes re-election a lot harder. But moving forward, we do not see signs of a recession on the horizon as we have previously stated in past market updates. The percentages have actually gone down, not up. And there are signs that globally, Europe may be coming out of its "funk" as well. If Europe begins to rebound and the trade tensions ratchet back, we could see further gains from here. While we see 2020 as having heightened volatility, what we don't see is the economy faltering.

Ok, so how about some more exciting talk. Can you say, BABY YODA!? Our purchase of Disney over the last two years has really paid off with the new streaming service, "Disney+". And just as we predicted, we feel the analysts are still under-estimating the amount of membership growth that we feel Disney is experiencing. With the unbelievable success of the (Star Wars spin-off) show *The Mandalorian*, the movie *Frozen 2*, and the vast amount of incredible content on the service, we feel the sky is the limit. *Frozen 2* just came out and has been setting box office records! In addition, new revenue streams coming from the Christmas merchandising of *Frozen 2* and Baby Yoda from *The Mandalorian* are incredibly promising. We are extremely bullish on Disney now and in the future and if you haven't signed up and seen Baby Yoda for yourselves, we strongly suggest tuning in. My fiancée is OBSESSED, and she isn't even a Star Wars fanatic...yet. In my opinion, Baby Yoda toys and *Frozen 2* Elsa dolls will be on FIRE this holiday season!

Our other holding that's just been on fire is Apple. Apple as a company and, as a stock, is far exceeding expectations, up over 50% YTD. Its service sector is showing incredible growth and we feel that the next phone upgrade will be a positive driver as well. 5G is coming down the pipe and everyone will want a new phone to take advantage of the technology. We are also bullish on Apple's new streaming TV service that was just released, even though they're further behind the competition in developing original content. With new shows like *SEE*, *Servant*, *The Morning Show*, *Dickinson*, and *For all Mankind,* the future is bright. And lastly, analysts are projecting that 2020 could be the year when Apple announces all new products focusing on Augmented Reality, or (AR). Needless to say, we are excited about what the future holds.

All in all, we are monitoring the developments in the Chinese trade talks closely for any clues as to what direction things will go. We are positive on the underpinnings of the economy and do not foresee a recession on the horizon. If a pullback occurs, we believe it will be short-lived and used as an entry-point for all of the portfolio managers who pulled out at the end of last year. We remain positive on our core portfolio holdings and will be looking to add on any future weakness near-term. And remember, if you

haven't bought Disney+ or Apple TV, I highly recommend it!

We hope everyone has a happy and healthy holiday season and truly want to thank everyone for your business over the years. If you have a friend or family member that would like to discuss becoming a client, we would love the opportunity. Also, feel free to check out the interesting articles below!

*Disclosure: Chapel Hill Investment Analysts is long Disney DIS and Apple AAPL.

-Joe, Ryan, and the Chapel Hill Investment Team

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