

"Cup of Joe"

It's been 4 months since our last update and the market sure looks a lot different! If you remember, the S&P 500 was down 17.5% peak-to-trough on fears of global recessions, trade wars and rising interest rates. Fast-forward to today and we are back to all-time highs. So, why did the market sell-off and what caused such a remarkable rebound to transpire? We will get into this and more in this "Cup of Joe".

In this market update, I'm going to spend less time on the markets and more time on our portfolio moves and predictions moving forward. So, what exactly happened in the last few months of the year? We believe that it was a perfect storm, of sorts. First, the tax cuts juiced the markets in 2017, creating incredible gains that were far higher than the norm. With double-digit gains came a more severe "correction". Read into the term and it means just how it sounds. A market corrects when its valuation gets ahead of itself. In 2017, the market loved the corporate tax cuts, essentially pulling forward the gains and causing this positive anomaly. In 2018, the market corrected and brought equities back down to reality. Another reason for the sell-off in December was global growth worries and fears that the FED would raise rates too fast. The global growth worries stemmed from our on-going trade war saga with China. We can't blame the markets for fearing that a trade war could force the global economy into a recession. (Think Walmart…it appears that everything sold at Walmart seems to be made in China! If 330 million people shop at Walmart and the Chinese put a 25% tariff on consumer goods, your $100 bill just became $125. Multiply that by the number of people who shop there each week and that's how trade wars suck the money out of the economy.) When the two economic juggernauts of the world are threatening each other with 25% tariffs, optimism takes a backseat to fear. Fast-forward to today and there is cause for optimism coming from both sides, with hopes that a deal will come soon. The other fear was that the Federal Reserve would raise interest rates too fast. Fed Chairman Powell announced in December that they would be cautious moving forward, with some FED members believing that they may be done raising rates altogether. So, in the span of 4 months, we went from fears of recession (if you read the last Cup of Joe, we were not predicting this move) to all-time highs. And the takeaway for all investors: "that's why you do NOT panic". The underlying fundamentals of the economy are strong: unemployment is low, interest rates are low, and company earnings are not showing signs a recession is near. It's just hard to figure out sometimes when Wall Street has a disconnect with Main Street. Moving forward, we believe the market will take a breather in the near term, having bounced back incredibly fast from the lows in December. We feel the breather will not be long and could afford the many investors, who made the mistake of pulling out at the end of last year and are currently sitting on the sidelines, a point of re-entry.

Ok, now on to some more exciting stuff! Let's talk about our new portfolio moves. As many of you know, I've been pounding the table for over a year now on why Disney is such a great stock to own - their content is king. They recently purchased 20th Century Fox. They're in talks to buy the remaining 30% of HULU from Comcast. Oh, and they released what could be their "Netflix Killer", Disney+. And man, oh man, does Wall Street love this new streaming service. Our thesis was simple. Disney has a monopoly on kids. No one does what Disney does in this space. And when you create a streaming service with an unimaginable treasure trove of Disney content, what parent can say no!? And it's cheaper than Netflix. We feel that the estimates of 50-70 million subscribers in 5 years is very achievable and more of a "under promise and over deliver" approach to their expectations. And one final point to add to Disney… STAR WARS LAND IS COMING! Disney's theme parks are unmatched and churning profits like never before. We feel the addition of Star Wars Land later this year will be the icing on the cake in what could be a historic year for Disney stock, already up 27% YTD.

In the high-risk accounts, we have added Facebook and Alibaba over the last year as well. As mentioned in the last email update, we felt both companies were facing a lot of near-term, negative sentiment creating a nice entry point to start acquiring shares. We love the long-term prospects of each and feel they are positioned nicely for further gains. Although we do not like the negative privacy concerns Facebook has been going through recently, we feel that this could be a tipping point for all of the big tech firms to get their acts together and start protecting everyone's sensitive data. A step in the right direction. What we do love is Instagram and Facebook owns them. This is where we feel the growth is coming from in the next few years. And we feel Alibaba, the "Amazon of China", looks to rebound mightily, assuming the trade war ends positively.

Looking ahead, we feel as though the stock market could be in a major sweet spot. Inflation is nowhere to be found. Rates look to be staying lower for longer. GDP is beating estimates and unemployment is historically low. And the question I keep posing to myself is this: if the market were to sell-off again, where is the average investor finding yield (interest) necessary for many retirees? The 10-year bonds are paying 2.5%. Inflation is at 1.8%. Money cannot stay on the sidelines long making 0%. I always point out that the psychological tipping point on interest rates starts to take shape around 4.5%. The average Joe looks at this and says, "hmmm, maybe I should take some money out of the stock market and throw it into bonds." But, until we get to this level, the largest baby boom in history is going to be looking for yield and the stock market is the only game in town for the foreseeable future. Isn't it funny how the largest institutional money managers in the world were all calling for a RECESSION a couple months ago? Where are they now??? Probably sitting on the sidelines in utilities and cash if you ask me. And what are their clients saying to them…I need a return! They will have to re-enter the market as well.

My Dad has a new favorite saying: "Why would you hire a Financial Adviser and then not take his/her advice?"

Thanks to you all for listening and following our advice! We value your business and thank you for your referrals. We would not be who we are today without you. We hope everyone has a great summer.

Please note: If you have received this e-mail from a friend and wish to discuss an investment relationship with our firm, please feel free to contact us. Also, feel free to check out the interesting articles below!

*Disclosure: Chapel Hill Investment Analysts Inc. is long AAPL, FB, DIS, BABA.

-Joe, Ryan, and the Chapel Hill Investment Team

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