MARKET INSIGHTS

FIRST QUARTER 2019

> ***Time is your friend; impulse is your enemy.***
>
> - Jack Bogle

David W. Griffis, CFA

Principal & Portfolio Manager

It's that time of year again, when our clocks spring forward, beer (and the river in Chicago) is briefly green, and phrases like "bracket buster" and "Cinderella Story" float through the airwaves until college basketball's annual gauntlet yields a champion. Almost as if to match the pace of everyone's daily life, the investment markets have been equally busy, on a tear from the recent lows set on Christmas Eve, nearly erasing the drama that was the 4th quarter of 2018. To paraphrase many a giddy TV talking head, the "Fed Put" seems to be alive and well.

For a phrase used ad nauseum for several years now, few outside of the financial news networks are familiar with the tongue-in-cheek implication of the statement. While the Fed's stated dual mandate focuses on maximum employment and controlling inflation (by maintaining stable prices and moderate long-term interest rates), what the "Fed Put" implies is that keeping equity markets "happy" may be the phantom third mandate being shouted down the halls of the Eccles Building in Washington D.C. The last 180 days provide some compelling evidence, where an escalating 4th quarter market selloff was appeased with surprising haste and effectiveness. Looking back, the solid market gains of early 2018 were quickly wiped out at the start of the 4th quarter, with indexes escalating to the downside in early December when Chairman Powell stated that the Fed was on "autopilot" when it came to their balance sheet policy. Que a few angry tweets from @realDonaldTrump and a 20%+ drop in the markets, and suddenly Chairman Powell and his Fed colleagues felt the urge to "listen to markets" and be "patient on interest rate hikes." The Santa Claus rally everyone had been hoping for showed up on Boxing Day (the day after Christmas for all the non-Brits out there), then morphed into the Cupid Charge, and continued on as the Leprechaun Leap. At this rate, who's to say we don't keep bounding along until Easter (the Easter Bunny Hop?)! Patience has yet again been rewarded, and for those with liquidity at the time, chaos did in fact create some opportunity.

The first quarter, despite its impressively powerful move higher, left a handful of names in its wake. Most notable was *Boeing*, who continues to suffer a PR headwind that is lightyears ahead of people getting caught paying bribes to get their kids into college. The loss of a second 737 Max 8 airplane, this time at the hands of *Ethiopian Airlines*, showed concerning similarities to the *Lion Air* crash in late October of last year, leading to a globally coordinated grounding of the Max 8 aircraft fleet. Accusations were hurled widely, ranging from supposed shortfalls in training provided by third-world budget airlines to legitimate software issues related to the Max 8's autopilot. While the true cause is still being investigated, the fact remains that the newest iteration of *Boeing's* popular 737 airplane is giving the company more heartache than hoped, especially less than two years into commercial production. The root of the market's concern is not necessarily the number of planes that were grounded (about 375), but rather the threat to *Boeing's* backlogged orderbook for the Max 8, which currently stands at over 5,000 planes (at an estimated 375 deliveries per year, that's a backlog of over 13 years). It will take several years for the Max 8 to become a meaningful component of *Boeing's* 10,000+ active commercial aircraft fleet, the reputational damage being sustained is undoubtedly creating pressure for a quick and thorough resolution. The turbulence being faced by a product with such high hopes led to a quick 20% drop in the stock price, and the jury is still out as to whether the events of the last two quarters truly warrant the loss of $40 billion in market cap for the company. And while the news and stock price reaction create a knee-jerk flashback to other black swan disasters (most notably *BP's* Deepwater Horizon), there are notable differences. The scope and persistence of the damage created by two isolated plane crashes, versus an uncontrolled spilling of thousands of barrels of oil a day, seem to yield different levels of potential liability for the company over the coming years. Time will tell, but we remain confident in *Boeing's* financial strength and engineering capabilities as we continue to patiently assess developments.

Boeing's example crystalizes a key point relating to a tactic we continually espouse when it comes to investing client assets. Appropriate position sizing is a simple way to avoid a life-style altering portfolio decline as the result of a "black-swan" event such as a plane crash. No matter the size or history of a company, single-name risk is a real and ever-present factor that can be effectively controlled through monitoring and keeping a limit on how much of a single company you own. *Boeing*, *BP*, or even a classic name like *GE*, are sterling examples as to why concentration risk needs to be managed. Granted *Boeing* stock is still up about 10% for the year at the time of writing (and up about 130% since the start of 2017), a 20% drop in value would be difficult to ignore if the stock was a very large portion of your net worth.

Turning to international markets, hardly a week goes by without some sort of excitement from outside our borders, with headlines usually fluctuating between elation and fear of impending doom. Ongoing negotiations between high level officials in the US and China are a recurring source of emotional swings, as details of a deal to end the trade war continue to get hammered out and leaked to the public just as we pass the one-year mark of that particular confrontation. At the core of that battle of political will is a focus on technology and the protection of intellectual property, combined with discussions around import/export quotas and tariffs on different traded goods. Toss in some accusations of currency manipulation and James Bond-esque spying/espionage related to Chinese tech giant Huawei, and the whole package makes for some consistently market-moving news flow. A bit closer to home our English brethren continue their ham-fisted attempts at dealing with Brexit, the ongoing political saga that now has a chance at reaching its third birthday remaining unresolved. The most recent votes indicate an extension of discussions for as far out as the end of May, likely culminating in the departure of Prime Minister Theresa May. The number of resignations, allegiance changes, and claims of imminent civil war (politically at least) have reached a nearly-comical level, and at this point most businesses with any exposure to the issue have made their contingency plans and gotten back to business as usual. Someday, if a resolution is finally reached, everyone involved will know how to proceed.

What both world events bring to light is the persistent, albeit ever-shifting, sources of market disruption from overseas. However, the silver lining to all the volatile news headlines is that often times during periods of market uncertainty, quality businesses get undeservedly sold off due to their operation in, or dealings with, the areas of the world involved in the media circus at the time. And while it can sometimes be a bit of a bumpy ride over the short term, we have found that at times, purchasing a quality business at a discount during uncertain times can lead to a very rewarding long-term holding. Patience, diligence, and time are often the key ingredients in making the best of market uncertainty, no matter the cause or location.

VERO BEACH GLOBAL ADVISORS
Registered Investment Advisor

verobeachglobaladvisors.com | (772) 213-8000
4625 Florida A1A, Suite 9 | Vero Beach, FL 32963

The views expressed in this material are the views of David Griffis through 3.31.19. The views are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities. Vero Beach Global Advisors, LLC is governed under the Securities and Exchange Commission as an Investment Advisor under the Investment Advisors Act of 1940. All investments contain risk and may lose value.