Investment Club Meeting

Friday, October 26th
Agenda

- **MarketWatch**
  - Henry Lewand

- **Market Outlook**
  - Emmett O'Toole
  - Harrison

- **Earnings Season**
  - Henry Lewand
  - Luke Cummings
  - Brett Berger

- **Trim**
  - Jeff Sikorsky
  - Tyler Furlong

- **Halloween Effect**
  - Mac Erb
ANNOUNCEMENTS

- BofAML Trading Floor Visit
  ○ Tentatively 11/9/18
Relaunching League for Month of November
Cash Prizes
Easy Sign up
Email Link Coming Soon
Market Outlook

Harrison Kusnierz and Emmett O’Toole
But first...

Brief Market Update
- On Wednesday, markets entered negative territory for the year.
- Recovered slightly by market close on Thursday, as shown above.
- Why such volatility? Investors on edge?
Market Outlook
Key Points

The FED and interest rates

Are equities overvalued?

Corporate Earnings
FED

This will reduce business investment which will slow growth

If bond yields become more attractive to investors, money will move out of equities

A BAML survey -> 10 Yr Treasury yields reach 3.7%: investors will buy bonds

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Too Expensive?

Many investors believe that equities are generally trading at high valuations. However, Professor Jeremy Siegel argues that valuations are justified by earnings. Siegel’s current PE of S&P ~ 18 corresponds to historically corresponding to 5.5% returns. With 5.5% returns, 3.1% to 3.7% 10 yr Yields correspond to an equity risk premium of 1.8-2.4%.
The Buffett Indicator: Corporate Equities to GDP

Numerator: Corporate Equities: Liability from the Federal Reserve's Quarterly Z.1 Balance Sheet (B.103). This series is also published in the FRED repository as NCBEILQ027S.

Denominator: Nominal Quarterly GDP
Corporate Earnings

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Strong earnings justify valuations

However, if earnings slow and interest rates continue to rise there may cause for concern
Earnings Season
Biggest Winners

Tesla (TSLA) (+12%)
Logmeln (LOGM) (+10%)
Mattel (MAT) (+10%)
Microsoft (+5.7%)
Biggest Losers (Aug 28 - Oct 16)

- NEWELL BRANDS INC  
  - Down 20.1%  
- MANULIFE FINANCIAL CORP  
  - Down 18.5%  
- GRUBHUB INC  
  - Down 14.0%  
- GENERAL MOTORS CO COMMON SHARES  
  - Down 13.3%  
- ANHEUSER-BUSCH INBEV  
  - Down 13.3%
Portfolio Trimming

“Know what you own, and why you own it”

- Peter Lynch
Why trim/sell off?

- Need cash to make more purchases
- Past week has shown large volatility in stock market
  - S&P and Dow growth became negative YTD indicating large sell offs
  - Want to capitalize on gains while ahead… are we near the end of the bull run?
  - Trade war & rising interest rates contributing to investor volatility
Grubhub ($GRUB)

- Online and mobile food ordering service
- Based in Chicago
- Grubhub Seamless, went public in 2014
- Listed on the NYSE
- Market Cap of 8.72 Billion
Why Sell?

❖ Threats to restaurant delivery industry:

➢ Emerging competition threats from UberEats, Amazon, Insta carts, Postmates, DoorDash

➢ UberEats is a huge threat to the industry
  ■ Delivering for Starbucks and McDonalds
  ■ A company that can pull revenue from more operations than Grubhub

➢ Minimal barriers to entry = more competition
➢ One bad incident can result in restaurants cutting ties
Post Malone spent $40,000 on Postmates this year—including $8,000 on Popeye's biscuits
Continued...

- Beat earnings yesterday but still fell 12% indicating a lack of investor confidence
- Forecast: increased competition ---> slow down their sales growth ---> investors will lower their expectations ---> lower price on the market ---> loss of some unrealized gains
Our position

- We own 250 shares, currently priced at about $96
- The historical data we have shows that we bought it pretty close to its IPO, as it is present on our portfolio from August of 2015.
- Using $30 as a conservative average purchase price ($26 in oldest available portfolio)
- We have made $16,500
- 220%
“Communications Services”

- Renaming of Telecommunications
- Mixes some telecom with consumer discretionary and tech
Buy Low Sell High

- Unless we are sure that Grubhub will be able to consistently grow in a market being flooded with companies such as Uber and Amazon, we should take the money we have made.
- Uncertainty = a good time to sell.
- Selling is not a bad thing, we have done well on Grubhub and we believe it is time to take our money.
Halloween Effect
What’s the Deal with Halloween?

Halloween Effect

- Investment strategy that suggests that stocks perform better from October 31st through May 1st
  - Timing strategy
- Sell in May and go away
- Winter Months vs. Summer Months
Where did this theory come from?

- Stock market anomaly dating back to the 1930’s
- Privileged class in the UK would leave for the summer and forget about their investment portfolios
- Similar today where investment professionals abandon financial centers for relaxation
What causes the difference in seasonal returns?

- Professional investors vacation’s can affect market liquidity
  - Fall may see increased trading volumes helping returns
- Investor risk aversion
Does the theory hold up?

![S&P500 Index - The Halloween Effect](image)

Source: Bloomberg
It is all fun and games until you try it

- Remember: this is a **THEORY**
- Yes, there has been success market performance to back it up but...
- **I’m not responsible** if you miss out on a Summer boom.