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2018 Mid-Year Comments

The 1999 Replay

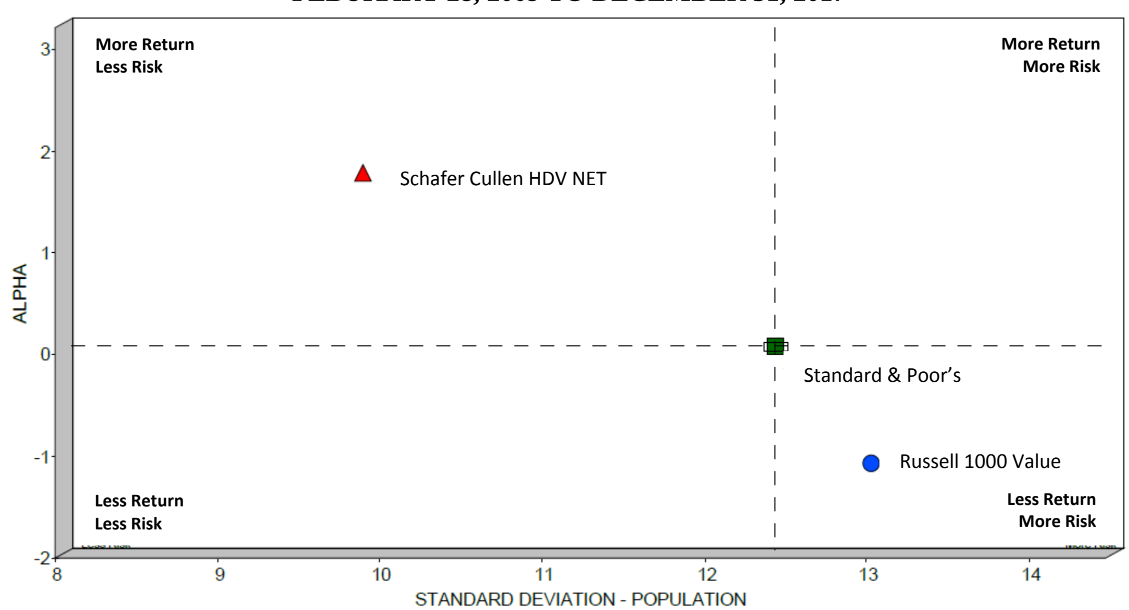
The current market has begun to resemble the one during the peak of the tech bubble in 1999. Then as now, a few tech stocks – currently the FANG issues (Facebook, Amazon, Netflix, Google) -- are driving the NASDAQ and the S&P 500 to new highs even while the rest of the market is actually down. **The FANG stocks are +25% for the year while the S&P 500 without the four stocks is -0.3% for the year.** Also the tech weighting of the S&P 500 has now reached 25%, double the normal percentage and one that approaches the tech level weighting of 1999. Not a good time to ignore risk.

Wall Street and the financial press often talk about risk, but seemingly never as it is linked to performance. Meantime, the average investor, while he certainly wants absolute performance, would also, it seems to us, want risk to be a consideration in stock selection.

That can be done. **In the below table we show the performance of the Schafer Cullen High Dividend composite when a unit of performance is measured against an equal unit of risk. The chart shows that our composite for the nine year period outperforms the S&P 500 by almost 200 basis points and the Russell 1000 Value by 300 basis points.**

In a long bull market, the danger of looking at only absolute performance is that the most overpriced stocks drive it. Of course some of the ETFs use leverage to juice their performance even more.

RISK ADJUSTED ALPHA
FEBURARY 28, 2009 TO DECEMBER 31, 2017

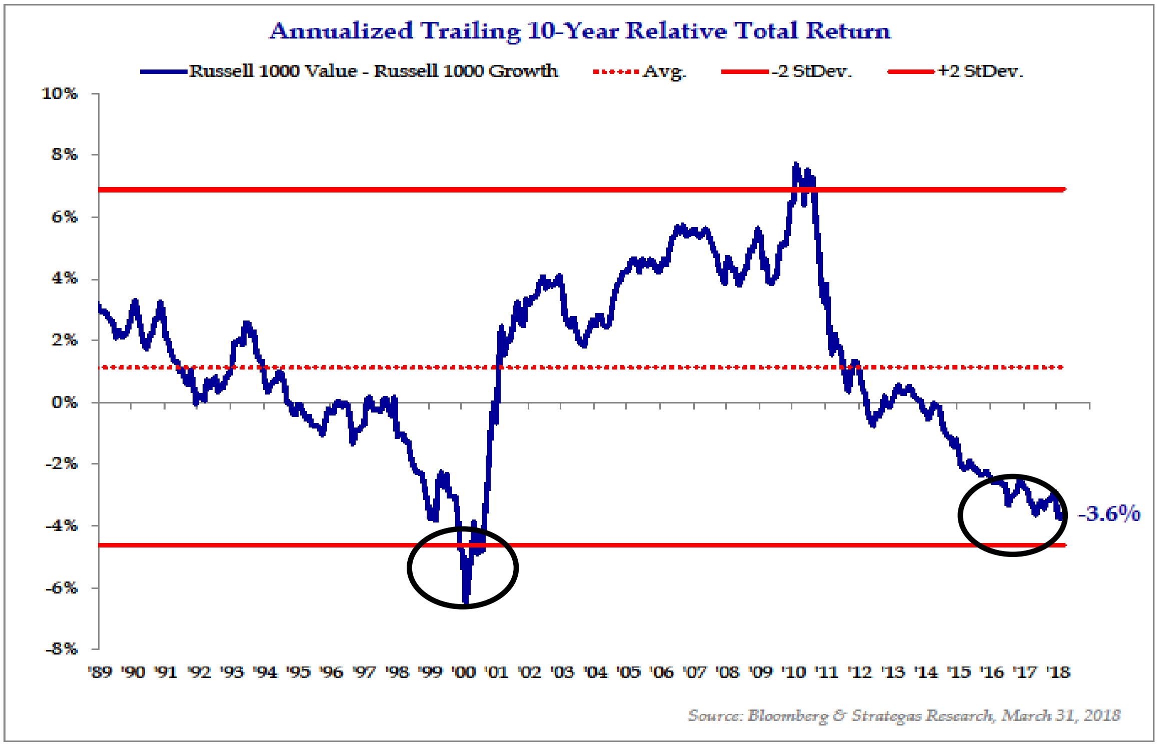


	Annual Returns	Std Dev Pop	Alpha	Beta
Schafer Cullen HDV	14.76	9.85	1.71	0.71
Russell 1000 Value	17.33	12.97	-1.15	1.03
Standard & Poor's 500	18.22	12.38	0.00	1.00

RISK BENCHMARK USED FOR THIS ANALYSIS: STANDARD & POOR'S 500

Historically Oversold

Because value has underperformed growth in the market advance, we present the chart below, one showing that value relative to growth is at the levels where value begins to dramatically outperform. That outperformance, as we have made a point of saying in recent market letters, tends to be long and dramatic.



New Investors

In 1999, new investors drove the market up. Then it was the Baby Boomers, now it is the Millennials. As with every advance we have had in market history, so it is with the present. What we always see is a long period in which stocks are out of favor. Then gradually the market starts moving up without much fanfare, and interest in stocks begins to build. And then new investors pile into the market, producing valuations that reach unsustainable levels.

This can lead to over-exuberance. A survey of new investors coming into the market in 1999 showed that they were expecting an outrageous average annual 30% return for the next ten years. Actually ten years later their favorite yardstick of return, the NASDAQ composite, was down more than 50%.

Conclusion

No one can predict how long the current FANG stock's enthusiasm will go on. History shows that long term investors should not try to time the market but also should be aware of risk.

Eventually, out of the blue, the rug gets yanked out from under the stock market, and when that happens, you want to make sure that you are falling off the bottom rung of the ladder and not the top one.

Jim Cullen

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