The Value Investor Note

Insights & Think Pieces for the Prudent Investor
May 4th 2017

Market Snapshot
DOW JONES: 20,957.90
S&P500: 2,388.13
NASAQ: 6,072.55

Noteworthy Events in the Market

The stock market is trading near all-time highs in the face of geopolitical risks surrounding North Korea, the Middle East, and the French election. The rest of this trading week will be interesting, as the market establishes its trajectory for the month of May. At the time of writing (May 4th 2017), S&P Futures just posted a range of less than 0.6% for 6 days in a row. This run has not extended to 7 days for over 20 years. It appears as though a breakout to the upside, or a release of air is imminent.

If the S&P500 is able to break and hold above the psychological 2,400 level, expect euphoric retail capital to flood back into the market as the "fear of missing out" drives the market higher. Despite the possibility of a continued run-up, we remain steadfast in our belief that a healthy correction is likely. Consumer sentiment about the US economy remains high, while GDP is at a mere 0.7%, and economic output increased at its slowest pace in three years. Public opinion is not being backed up by data, thus we continue our conservative investment approach.

As earnings season continues, we examine **Tesla Inc. (TSLA - $311.02 – NASDAQ)** who reported their first quarter earnings after the bell on Wednesday. Amid increased expenses and liabilities, they reported a staggering net loss for the quarter of $400 million. Despite the worse than expected earnings of -$1.33/share, TSLA has only declined 2.3% in after hours trading. Investors continue disregarding fundamentals, setting themselves up for disappointment if promises aren't delivered upon. Our task, therefore, is to identify proven companies that can execute when expectations finally meet reality in the market.

Stocks of Interest:

We maintain exposure to US stocks, however international events have lead to opportunities outside of America. Following the Brexit selloff, we added a modest position to a British utility company called **National Grid plc (NGG – $65.29 – NYSE)** and will continue to buy on dips. After a Latin American slump following the Trump victory, we added exposure to Mexican and Colombian holdings. We continue to hold gold mining companies, as precious metals often act as a natural hedge against stock market selloffs. Lastly, our cash reserves remain high. Cash is strategically being held in US dollars, in anticipation of cheaper stock prices in the near future.

Grupo Aeroportuario del Pacifico SAB de CV (PAC – $106.03 - NYSE): PAC is a Mexican airport operator that has seen a significant rebound since the start of the year. Growth of over 10% per year, strong dividend, and a cheap valuation became apparent due to Trump fear. Now that PAC is trading closer to what we believe to be fair value, we will only be allocating more during significant dips.

Tecnoglass (TGLS - $10.77 - NASDAQ): TGLS is a relatively small Colombian window/glass producer, with a growing presence in the US market. Accounting concerns in 2015 scared away potential investors, leaving the company at what we believe to be a significant discount. As investor confidence is restored, we expect a rebound in the share price. This recovery may take several quarters, however we are happy with a nearly 5% dividend while we wait. Due to the risks associated with a company of this size, we are keeping allocations small.

Market Vectors Junior Gold Miners ETF (GDXJ - $30.70 - NYSE): GDXJ is an ETF that holds a variety of smaller sized gold mining companies. We have held this ETF to obtain relatively cheap exposure to a wide range of gold producers. However after taking a close look at reorganization taking place within the ETF, we have decided to liquidate this holding. In the coming weeks, we may reallocate these funds into GDXJ's counterpart, GDX, or purchase several individual gold miner companies. For an extended explanation of the situation surrounding GDXJ, please request a copy of our research report.

Walgreens Boots Alliance (WBA – $85.79 - NASDAQ): WBA is a pharmacy-led health and wellbeing company. We have held this company through 2016 as a conservative blue-chip addition to the portfolio. In early April they reported a dull Q1 2017 earnings report, highlighted by concerns surrounding their potential merger with Rite Aid. We have decided to cut this holding, which will likely be replaced by its more attractively priced competitor, CVS.