



January 2018 Client Note

Happy New Year, and welcome to Olivar Capital Management's monthly client note. As a valued client, we wish to keep you fully informed as to individual position changes for the month, and any changes in our portfolio strategy. Please contact us with any comments, questions, and insights.

Last month, Trump signed the "Tax Cuts and Jobs Act" into law, the largest U.S. tax overhaul in 30 years. The law reduces corporate tax rates permanently and individual tax rates temporarily, which has led to a positive market reaction. FedEx Corp (**FDX**) was one of the first companies to provide an estimated earnings impact as a result of the tax reduction. They project a staggering \$1.3 billion increase in profits this year, or an approximate \$5.00 gain in EPS, an indication of how significant this change will be for the economy.

This tax law directly benefits companies with high earnings relative to overall company size or market cap. As such, a "growth" company like Amazon (**AMZN**), with a P/E ratio of over 300x, will benefit substantially less in the near-term than a "value" pick such as New York Community Bank (**NYCB**), which has a more reasonable P/E ratio of 15x.

In a search for opportunities, we regularly analyze international markets. We have recently started a small position in the largest online travel agency in Latin America: Despegar.com Corp (**DESP**). The company is not extensively covered by analysts, and trading at a significant discount to industry peers, such as Ctrip.Com Int (**CTRP**) and MakeMyTrip (**MMYT**). As the company gains institutional investors and is likely added to various index funds, we expect the share price to rise. Also in Latin America, our airline Controladora Vuela Co (**VLRS**) has continued to selloff due to a perfect storm of negative sentiment in Mexico, a weak peso, and political uncertainty surrounding NAFTA. Despite these factors, we believe the selloff is unjustified and continue adding at these levels.

Q4 earnings season will be upon us shortly, and we eagerly await annual 10-K reports. This report provides granular detail into company operations, revealing information that will set the pace for the coming year. In the meantime, we have been purchasing small amounts of the Schwab U.S. Dividend Equity ETF (**SCHD**) to take part in the most recent round of positive sentiment. Due to inflated asset prices across most markets, our cash balances remain relatively high, held in interest-bearing money market instruments.

"Stocks with a low P/E ratio will benefit the most from new tax cuts."

Max J. Greb

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