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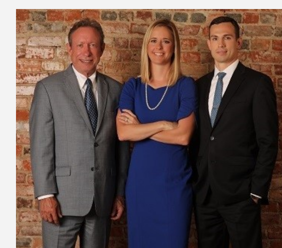
PROVIDING PEACE OF MIND

Dog Food Is Not Special



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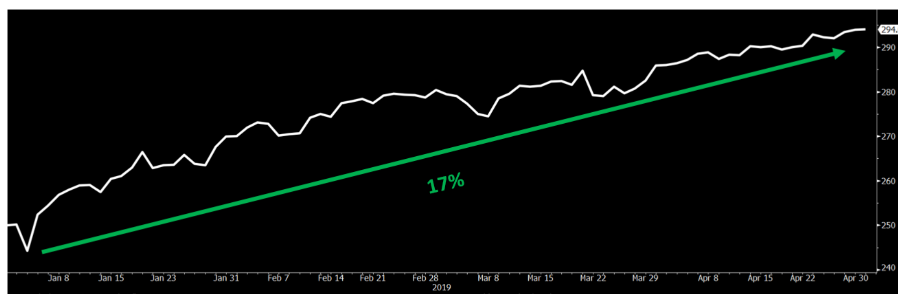
Despite this week's selloff, 2019 has been a good stock market year so far. Through the end of April, the S&P 500 increased over 17%!



That's an annualized rate of approximately 54%. Of course, annualizing stock market returns after four months is like thinking "Superbowl" after your team's fifth consecutive win. The football season can be incredibly cruel, and so can the stock market. (FYI: the largest recorded total return in the S&P 500 for a calendar year was 52.27% — in 1954.)

Stepping back from the trees so that we can see just a little more of the forest, it becomes obvious that the first four months of this year simply offset the selloff that marked the fourth quarter of last year.

So for the past seven months, the stock market is "flat" but "not boring." And the next eighteen months are not likely to be boring either. Monday of this week, the U.S. stock markets opened down almost 2% because Trump is threatening to escalate the trade war with China. (Chinese markets were down much more.)

But here is something we all know: in November 2020 there will be a presidential election, and it's not likely that Trump will intentionally institute policies that will stifle free trade and global growth — at least not until after the election. If he does introduce increased tariffs, we predict they will occur

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soon and be short lived. That way, he can look good when he removes the tariffs and stocks pop as investors are more optimistic about global growth.

Timing is everything.

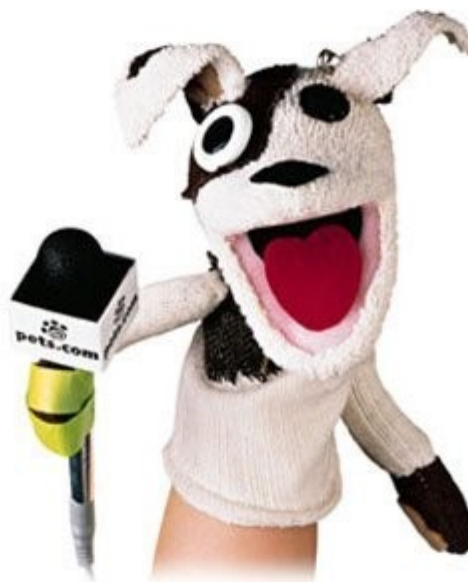
Many companies that begin as private enterprises often become publicly traded companies by selling shares to individual and institutional investors. Those shares then trade on public stock exchanges such as the New York Stock Exchange or the NASDAQ. The first day those shares begin trading is known as an Initial Public Offering (IPO).

The sellers want to get as high a price as possible so as to be handsomely compensated for all the hard work they put into creating this company that is now going to be sold to many other people. The buyers, of course, want to pay as little as possible so they can realize a nice return on their investment someday.

When the stock market is "hot" and there is continuous demand for stocks in general, IPOs tend to be more successful and company founders get a better price for their shares. When the stock market has been hot for an extended period of time, we tend to see increased numbers of private companies wanting to go public.

In the bull market of the late 1990s, the dotcom bubble saw a ridiculously stupid number of companies "go public." All they had to do was make sure "dotcom" was tagged to the company name and investors would pay absurd amounts to become shareholders.

It could be a company called weinstallcarpet.com and it would sell for a high valuation in 1999 even though all the company did was install carpet. There was an actual pet-supply company called Pets.com whose ad spokesperson was a dog sock puppet.



This company went public in February 2000 and at one point it was worth over $300 million. And here is the amazing part: during the fiscal year that ended in February 2000, they had revenues (not profits) of $619,000 and had spent almost $12 million on advertising.

In the book, *Thinking Inside the Box*, the author, Kirk Cheyfitz, notes that "Pets.com was selling merchandise for roughly one-third what it cost the company to buy the same goods." Say what?!

And investors bought shares in this company (which soon went bankrupt, by the way) because it had "dotcom" at the end of its name. THE COMPANY SOLD DOG FOOD! Selling dog food is not special. And selling dog food at a loss is *really* not special.

That doesn't mean all companies that went public in the late nineties were laughable. Amazon went public and it's hard to argue with that one.

But when the pace of Initial Public Offerings (IPOs) begins to ramp up, it's time to start paying attention, because this typically happens near stock market tops.

A large contingent of start-ups have been alluring investors (venture capital) in the "private markets" for years. Many of those companies are now looking to go public. The stock market is hot, so here we go again.

Lyft, Pinterest, and Beyond Meat have recently gone public. And if the stock market remains hot long enough, other companies that are generating a lot of buzz in the financial world may get their shares to the market before the party ends (companies like Uber, Airbnb, Slack, Palantir, Robinhood, WeWork, Postmates, and Chewy.com). Chewy.com bears a striking resemblance to Pets.com . . . a company that sells pet products at a loss.

For an investment to look good to BCWM, it has to be a good idea and the stock has to be selling at a reasonable price.

Sometimes the best new idea is just a different way of delivering an old idea.

In the mid-1970s, a commercial hit the airwaves saying, "When it absolutely, positively has to be there overnight." Up until then, when you put something in the mail, that item got to its destination when it got there. It could be two days. It could be five days. You never knew (except you pretty much knew it was *not* going to get there the next day).

But when Fred Smith created Federal Express, you could mail that rent check that had to be there the next day and not have to worry about late fees. Mail wasn't a new idea. Guaranteeing delivery the next day was a new idea!

And on a similar note, taxicabs are not a new idea. But using your phone to summon a driver to your location, possibly in a much nicer vehicle than most taxicabs, *is* a new idea — and a very good one at that. Uber and Lyft will pick you up wherever you are and tell you in advance how much the ride will cost (even if they take the unnecessarily long route).

Turning to the latest economic data, Gross Domestic Product grew at a healthy 3.2% in the first quarter . . . but not quite as healthy as it appears. Inventories grew more than usual and consumption grew less than previous quarters. We like it when GDP increases because the consumer is optimistic, not pessimistic.

The latest U.S. jobs figures (the number of jobs added and the unemployment rate) were better than expected, so we are waiting to see whether this translates into a healthier consumer in the second quarter. The economy cannot continue to grow at a 3%+ rate without it.

We are headed to a couple of industry conferences this month. The first, the Annual Chartered Financial Analyst (CFA) Conference, will be in London, thus providing the perfect venue for gauging how Brits currently feel about Brexit.

And the second one, the annual Strategic Investment Conference, consistently features the best investment minds in the world.

Takeaways from both conferences will be included in our June Investment Commentary.

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