Investment Ideas for 2019

By

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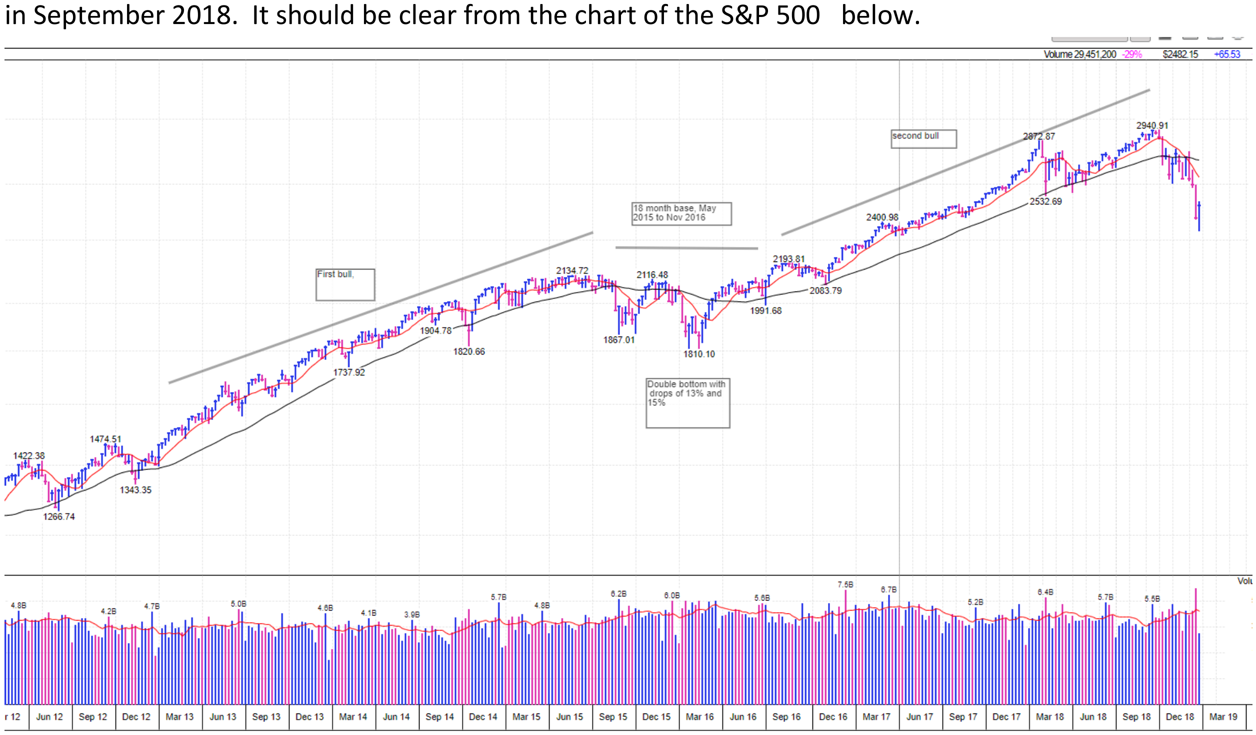
1. Last year I predicted that at least one of the major averages would be up 15% in 2018. Ok, ok, we all know that all the averages ended lower. However, if you let me "revise my remarks" as a politician might say, then I was right. One of the major averages WAS up more than 15% if you agree that I really meant to say it would be up more than 15% at some time during the year. If you managed to sell the Nasdaq on Sept. 20, 2018, you were up 17.5% from the start of the year. Similarly, the Dow was up 9% and the S&P 500 was up 10%. So, it was a good year...until it wasn't.

2. Investor response to the opportunity created by the selloff reminds me of my visit to a carnival tattoo joint back when I was 18. I was there with a buddy and we both wanted to get tattoos but neither wanted to go first. "You go first" "No, you go first". After a bit of that, we passed on the opportunity and went on to other foolishness.

3. People who say that this has been a 10 year bull market have not looked at the charts. There have really been two bull markets with an 18 month correction (May 2015 to Nov. 2016) where there was no price appreciation. The second bull started right after Trump's election and ended in September 2018. It should be clear from the chart of the S&P 500 below.



4. 2019 should be boom times for income investors. Yield-seeking investors have been starved for years with no return on savings accounts and less that 2% on CDs. This is changing. Savings accounts with brokerage firms like Fidelity now pay over 2% with no withdrawal penalty. One year CDs are now commonly over 3%. Yields between 5% and 8% are easily available from relatively safe investments like preferred stocks, REITs, and Business Development Companies. All of these will have great appeal to the growing volume of retired Baby Boomers who don't want the volatility of the recent stock market.

5. Stocks are too volatile, bonds lose principal when rates raise, commodities are in decline (in part because the economy is changing to a more service oriented model that uses less natural resources and in part because technology tends to make commodities more abundant and more efficiently used). So, more money is in cash, money markets. Not a stable situation. Where will it go? Prediction: When rates quit going up, it will flow into bonds and income stocks. Income investors have been starved and will seek yield. Stock investors have been shaken up and will seek stability. Both trends support a move to income investments.

6. True, higher rates mean that bond investors lose principle, but that only concerns people who already own bonds. The higher rates will also attract new investors into bonds.

7. The long run of low rates has produced an unintended phenomena that has been widely noted in investment publications: low rates encouraged more savings rather than less as intended. Simply, people needed to save more to reach the income level that they felt comfortable with. With higher rates, this trend should change. Higher rates will mean that people need to save less to reach their income goals. This should mean more disposable income freed up for other uses. Where do people often spend new money? Vacations, leisure activities, consumable products like clothing and meals out. Stocks in these area should all be happy hunting ground for growth investors.

8. Is this the big one? Is there going to be a serious decline on a long term basis? I try to make sure that I am asking the right question and that question is "Is this like 2000 or 2009?". I don't think it is. Both of those declines had obvious economic foundations. In 2000, some tech stocks were valued in the billions even though they had no revenue (and of course no profits). Of course it was going to crash. In 2009, you had complex financial instruments based on "safe" American homes that had been bought with no money down by people who could not afford them. I don't think there is any such flimsy basis for our current stock market. There is no "magic" sector to inspire overconfidence from gullible investors. So, no, I don't think this is the big one.

9. These positives could help move the market up:

    a. Some sort of trade deal will be worked out with China, just as it was with Canada and Mexico
    b. Final retail sales figures from Christmas will set records
    c. The impact of the tax cuts for individuals will not be felt until taxes are filed this spring
    d. Democrats will realize that impeachment is a sure way to lose the 2020 election
    e. The Fed will pause or at least be more dovish
    f. The long Mueller investigation will find no collusion with Russia
    g. There will actually be bi-partisan support for big spending on infrastructure
    h. The Democrats will embarrass themselves by making some silly candidate like Bernie Sanders or Cortez-Ocasio their leading presidential candidate assuring Trump a landslide win in 2020.
    i. The economy will continue to grow at almost 3% and the recession predictions will be seen to be wishful thinking of a few Liberal economists like Larry Summers and Paul Krugman. Recall that Krugman predicted right after the election that Trump would cause the market to go down so far that it would never come back (it went up 45%).
    j. Lower oil prices will mean lower energy costs and this will act as a tax cut for all.
    k. Lower commodity prices (copper, aluminum, etc.) will keep inflation low and reduce the need for the Fed to raise rates.
    l. 5-G networks will arrive in 2019 and users will buy new equipment to get speeds that are 20 times faster.

10. The biggest risk that I see is the impeachment process (not the trade war, not rising interest rates, not valuations, slowing growth, inverted yield curve, etc.). The irrational hatred for an outsider president who wants to slim down the federal bureaucracy and prevent millions more illegal aliens from flowing across our borders is a real danger. The "swamp" that he is trying drain is fighting to preserve its privileged status and many of them want to vote for impeachment because they now control the House. They have no chance of a conviction in the Senate but their goal is disruption, not winning. Their blind hatred combined with some political power and support from the news media can do some real damage to investor confidence. That is their goal.

11. It is easier to scare someone than it is to give them confidence. Bull markets need confidence.

12. The early weeks of the year may be weak beause many average investors who don't follow the market closely will be horrified when they open their year end statements and find out how much money they lost in their IRA. Many will immediately want to move to cash and investment managers will be worn out from giving their "Don't sell at the bottom" speech. They will sell and this will be the bottom. I have no good advice on how to handle this, but it might be a good time to take a 2 week vacation to some place with no internet access.

13. You may hear commentators claim that the economy is slowing. Don't be easily fooled. They are talking about second derrivative slowing. Think about the difference between acceleration and speed. When you go from zero to 60, you feel the acceleration. When you stay at 60, you don't feel it. But speed is what gets you there, not the rate of change in speed. So, the rate of acceleration in the growth rate of the economy is slowing, but the economy is still growing at an excellent pace.

14. There should be a good investment opportunity in Brazil because they are changing from a failing socialist economy to a more free market one. They have some new officials with Univ. of Chicago economic backgrounds. EWZ is the etf for that country.

15. Those of you who are avid readers of my stuff will recall that I recommended Merck (MRK) in my predictions for 2017 because it was the leader in the revolutionary immunotherapy field. It was the best performer in the Dow in 2018 with a 34% increase. It is a long-term hold for me and I added on as it went up.

16. I tend to not invest in energy companies because there are so many people who specialize in that area and know more about it than I do. However, there is an unmistakable trend in growth in LNG exports. I found a stock that benefits from that volume apart from any price considerations. Chart Industries (GTLS) is a small ($2B market cap) company that manufactures the cryogenic containers that hold LNG. They are the leader in that market, especially for the smaller ones. It was up about 40% in 2018 on huge revenue growth from 50% to 30% per quarter compared to the same quarter last year. Next year could be better because their main competitor, McDermott, plans to sell off their storage tank business which is in the larger end of the market. Chart will probably buy that business giving them an even more powerful position in a growing market.

17. I am trying to find a company that owns a lot of parking lots and parking garages. If the Uber-effect works out like I think it will, downtown parking lots will have less demand from cars but could be sold for development. Downtowns will be less crowded if most people are delivered without the need for parking space.

18. The inverted yield curve is basically a sentiment indicator. It shows how bond traders feel. It may have some value but don't base any decisions on it alone.

19. There is an important difference between managing stocks and investment real estate. It is real hard to lose money on real estate and it almost never goes to zero, unlike stocks. Your attitude with a real estate investment should be to hold it long-term, even through the bad spells. However, that attitude can get you in real trouble in stocks. You always need to cut your losses in stocks.

20. Valuation is often an attempt to find some objective data to support a decision. And it is often worthless, irrelevant information. Low valued stocks don't have to go up and over-valued stocks don't have to go down. A focus on valuation distracts you from more important things. There is only one thing that matters; will someone be willing to buy the stock from you at a higher price at some point in the future? Will buyers want it in the future? Hard to know, but it is also all you need to know so it is worthwhile to focus on it.

21. Here are two absolutely objective pieces of data from the market:

    a. The outstanding short interest in a stock. This is reported twice a month so it can get a bit out of date but it is information that is accurate and can't be manipulated. And it can be useful because the short interest is really an unfilled order to buy.
    b. The relationship between the current price of a closed end fund and the net asset value of the stocks in the fund. You would expect the NAV to be lower because you should pay something for the convenience of buying the basket, but it often not true.