



Basis Points – September 6, 2018

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Above the Fold

The equity market remains worried at the edges about stress coming from weakness in some emerging market countries. Strategas Research wonders if the market can see a bear market in Emerging Markets and Europe, without weakness spreading to U.S. stocks. Looking historically, the mid-1990s may be a relevant roadmap for today's environment. U.S. stocks were able to hold their own during a -33 percent rout in Emerging Markets and a near -20 percent pullback from European equities over the course of 1994-95. The S&P took more of a hit in the '97/'98 Emerging Market crisis, but quickly recovered to new highs. Financial conditions are always an important input, and while continued stress from Emerging Market credit remains a concern today, we have yet to see any strong evidence of this spreading to the U.S.

Three Things

- Companies are on pace to repatriate \$700bn this calendar year or roughly 3.4 percent of GDP. This is higher than the \$300bn or 2 percent of GDP that came back in 2005. A major reason for this is that companies have more cash overseas today than they held in 2005. Additionally, the 2005 tax change was a one-time, voluntary change. In 2017, a mandatory tax was placed on all foreign earnings overseas. Also companies will be able to repatriate their active earnings back to the U.S. tax free on a moving-forward basis.
- Over the last 60 years, the S&P 500 has shown a positive total return in 47 of those years, with only 13 negative years. That means that 78 percent of the time, the market has shown a positive return for a calendar year. With those odds, betting on the market to decline in a particular year is a very bad bet.

- Does Apple's huge buyback program create an Apple put option, or floor on the stock price? SEC rules state that a company can only buy back 25 percent of the average volume in its own stock per day, and they cannot buy near the open or close of the trading day. AAPL is currently authorized to buy back \$125 billion in stock, and with an average volume per day of 30 million shares, they could buy back 7.5 million shares, or \$1.3 billion a day. With \$125 billion in buybacks, they could max out buying their shares every trading day for the next five months. AAPL stock has risen 36 percent year to date, vs. 9 percent for the S&P, and one could argue that their large cash bazooka standing at the ready may mitigate declines in the stock price somewhat if a larger market correction is on the horizon.

Did You Know

While circulation of daily print newspapers has declined 43 percent in the U.S. since 2003, there is one pocket of daily print edition strength that is still going strong. The Villages in central Florida began in the mid-1980s as a 400-unit mobile home park, but has grown strongly and now has 120,000 residents. Many new residents say that the presence of a robust daily newspaper was one of the attractions of moving to The Villages. The community's newspaper, *The Villages Daily Sun*, which exclusively covers the rapidly growing retirement community, is in the midst of a boom that no other newspaper can imagine these days. The Daily Sun boasts a 92 percent market penetration, which is even higher during winter months when The Villages population makes its annual peak. The Sun's weekly circulation of 55,700 has risen 169 percent since 2003. Residents like to settle in each morning with their coffee and the paper, reading the news and doing the crossword puzzle and word Jumble before starting their days. With an editorial staff of 50-strong, the paper has won awards for hard-hitting investigative journalism, and is a first-read every morning for the Villages population. Subscription prices are very low, with a 52-week, seven-days-a-week price of only \$76. Advertisers from doctors to real estate agents to golf courses love the very targeted nature of their ads in The Sun. Interestingly, new reporters and editorial staff are typically recruited out of college, so most staff is not allowed to live in the age 55 and older community, so they live in communities in Orlando and surrounding towns, and commute to work at the paper. The main question is do only the current generation of older people appreciate the physical nature of a daily newspaper in their driveway each day, or will future generations of older people, generations who have grown up glued to their phones, appreciate it also?

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