OXFORD CHASE ADVISORS LLC

4600 Avocet Drive
Peachtree Corners
GA, 30092

Ph: (1)678-313-6265
Email: info@oxfordchaseadvisors.com
http://www.oxfordchaseadvisors.com/

Economy & Market Valuation

The biggest achievement of the Trump administration in Q4'2017 was passage of the tax reform act. It has cut the corporate income tax from 35% to 21%. It is supposed to increase the earnings of US companies and the US GDP growth rate. It comes at a time when US is running close to full employment. The million-dollar question is if it is going to result in acceleration in US wages and hence US inflation. The fear of the market is if the US inflation accelerates, Federal reserve will increase the interest rates at a faster pace which will put a brake on US economic recovery. We have already seen a glimpse of this fear in the US stock market in January '18. Wages in the January '18 employment report increased at 2.9% which was the highest since 2009. The market interpreted this as a sign as that inflation is coming and went through a correction of 10%. It is the first correction that the market has seen since 2016.

We do not expect that a recession will happen in 2018. Most economists do not see a recession happening in 2018. Some economists see a recession happening in late 2019 or 2020.We believe that the pace of inflation and interest rate hikes will determine how soon the US economy will see a recession. We believe that the stock market will see lot more volatility going forward because of inflation and interest rate hike fears. We are staying invested in the market for now and watching it very carefully. We want to stick to good companies that can withstand inflation and higher interest rates.

Investment philosophy and Examples

There are companies which benefit from rising interest rate environment. The companies which can pass on inflation to the customers while maintaining or improving market share will benefit from increasing inflation. Also, banks will benefit as they will get higher interest income when they lend money. This is all true if the economy is growing and we do not hit a recession. On the other hand, the stock prices of companies which have high dividend will suffer as the dividend is not that attractive when interest rates are high.

A Note on Corrections

Are corrections good for portfolio?
A market correction is generally a 10% drop. Corrections can be gut wrenching. It is painful to watch your returns dissipate and your portfolio shrivel. How do we make sense of these corrections? Is there any good to having these corrections? The surprising answer is that, under the right circumstances, corrections can be a boon to your portfolio. Here is why:

- If you are young (or young at heart) and saving for retirement, then corrections offer you a chance to buy shares cheaply. You may be contributing monthly to your retirement portfolio. These monthly contributions help you buy slightly more shares, which in turn will compound and benefit you tremendously in the long run.
- A majority of companies buy back shares every month. Examples are Moody, S&P Global, etc. During corrections, buybacks take more shares off the market and benefit existing shareholders.
- If you are enrolled in dividend reinvestment options, then your quarterly dividends get you incrementally more shares.
- If you have been sitting on cash waiting for an opportunity, then corrections can help you get some market exposure.

Corrections are a blessing in disguise if you have a longer time horizon.