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Economy & Market Valuation

The market as measured by the S&P 500 index experienced its first negative quarter in the first quarter of 2018 since the election of Donald Trump as the US president. The market had gone up almost 30% in a straight line since the 2016 election before dropping in the first quarter of 2018. Markets do not go up in a straight line and volatility is the norm rather than the exception for the markets. There could be multiple reasons for the drop, such as - valuations are too rich, interest rates hikes by Federal reserve are having an impact or fears that Trump's tariff policies could spur trade wars. All this is creating uncertainty in the market.

But we at OCA, are of the opinion that the US economy is not showing signs of recession or even slowdown. We do not expect huge gains going forward because of high valuation and interest rate hikes, but we do not anticipate huge market drops that are typically associated with economic recessions. We are keeping a watchful eye on the economy for any signs of a slowdown. We are being cautious with our investments by taking profits and reducing positions in stocks which had a huge runup, in order to reduce the overall risk of the portfolio.

Once we see signs of an economic slowdown, we will be increasing the cash portion of the portfolio.

Investment philosophy and Examples

You might have noticed that there is a significant position in QQQ - Nasdaq 100 index. QQQ has a high exposure to technology stocks. The purpose is twofold. Firstly, it can serve as a cash proxy. We want to be in cash or in a cash proxy position to take advantage of market drops that may happen in the near future. The second purpose is to benefit from the growth of companies in the Nasdaq 100 index (QQQ). Technology companies are not the same as we saw in 1999-2000. In 2000, technology companies were trading at insane multiples and were burning enormous amount of cash. The tech companies of today like Apple and Amazon are generating huge free cash flow and are investing in their business for growth and to widen their moats. Apple just announced an additional $100 Billion share buyback. Amazon is investing money for future growth in segments like Cloud Services and in international markets like India.