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Economy & Market Valuation

The US stock market ended the third quarter of 2019 at virtually the same level where it started in Jan 2019. The question is, how do you generate returns in a flat market? The answer is very simple. You do it by buying and holding high quality companies. As shown in the graph below, some of our picks, such as Mastercard (MA), Verisk Analytics (VRSK), Visa (V) and Moody's (MCO), outperformed the US stock market as measured by the S&P 500 (SPY), by a huge margin. In the last one year, the US stock market as measured by SPY is up by 7.9%, while VRSK is up by 34%, MA by 33%, V by 26% and MCO by 37%. Our thesis all along, has been that, quality companies that have organic revenue growth, pricing power and a big addressable market, will outperform the general market in the long run.



US economic growth rate has slowed down significantly over the last one year. The reasons are - tariffs and trade war, global slowdown and effects of increase in interest rates that the Federal Reserve was doing in 2018. US GDP growth rate has slowed down from 3% to 2% - or may be even less than 2%. The big question is, do we see a recession in the near future? Our view is that, we do not see a recession in the US, in the near future. We believe that

reduction of interest rates and easing of monetary policy (by increasing its balance sheet) by the Federal Reserve, has eased monetary conditions and pushed out a recession for now. As a result of lower interest rates, housing starts and construction have both shown an increase in the US. A recession in the US will happen for sure at some point, but it may be not happening the in the near future.

We want to prepare our portfolio for low growth and higher volatility. Our plan is to stay cautious and stay invested in quality companies. We are keeping a substantial amount of cash and cash proxy positions in the portfolio and we will invest them whenever a good opportunity shows up. As always, we are watching the economic indicators to estimate the direction of the US economy. Our goal is to filter out the noise. There is a deluge of news every day. We try to analyze how the news impacts the US economy and the companies that we hold in our portfolio.

We hope to see you all on Dec 7th at our annual meeting. The address is Atlanta Marriott Alpharetta, 5750 Windward Parkway, Alpharetta, GA 30005. The meeting starts at 10am. As usual, we will start with our presentation where we discuss our outlook on the economy and the stock market, and, how we are positioning your portfolios for the long term. We will then break for lunch followed by a question and answer session.