Oxford Chase Advisors
October, 2016

Economy & Market Valuation

Despite all the turbulence, the stock market delivered a 2% return in 3Q'2016. We are approaching the markets with caution as we are entering 4Q'2016. There are multiple reasons for the caution. At the top of our list is the pending interest rate hike decision by the Federal Reserve. The market is placing a 60% probability of an interest rate hike in December 2016. We think an interest rate hike will increase volatility in the market. The other reasons for our caution are US election uncertainty and high valuation of the market. We think one interest rate hike will not pull the US economy into a recession. If the Federal Reserve is slow in hiking rates (may be 2-3 interest rate hikes in 2017) and the terminal interest rate is low (2-3%), then the US economy can continue its expansion. We see very low probability of a US recession in 2017 and are not negative on the US stock market. Employment is still very strong in the US and housing starts are still increasing but the economy is growing at a very low rate because of lack of business investment and external factors. But as a measure of caution, we have increased the cash position in the portfolio. We plan to take advantage of any market drop by deploying this cash quickly when the time comes.

Investment philosophy and Examples

There is no change in our investment philosophy. We are buying and want to buy good companies at reasonable valuations. Our definition of a good company is a company which has a competitive moat, can grow its revenue organically for many years in the future, has low capex needs, has high Free Cash Flow (FCF) and can return capital to shareholders by way of dividends and share buybacks. In our view, these companies will withstand a slowdown in the economy better than other companies. Some examples of such companies in our portfolio are Moody's, Ebix, Visa and S&P Global Inc. We are constantly looking for companies with these characteristics and will add them to the portfolio when we can buy them at reasonable prices.