*MARKET COMMENTARY – JULY 1, 2019*

***Full fathom five thy father lies,***
***Of his bones are coral made,***
***Those are pearls that were his eyes,***
***Nothing of him that doth fade,***
***But doth suffer a sea-change,***
***into something rich and strange,***
***Sea-nymphs hourly ring his knell. ~ The Tempest, 1610***

Truth be told, we often attempt to avoid quoting Bill Shakespeare in our monthly commentary. There are countless other folks who have coined witty or insightful phrases. However, the fact remains that so much of what we use as English clichés, idioms, or axioms in our day has its origins with the works of the Bard. Sea change is no exception.

The air spirit Ariel sings the song above when Alonso is believed to have died in a shipwreck. Clearly, the spirit claims that the wild nature of the sea will claim Alonso's body and reform it into new matter. Aspects of this famous stanza, such as *full fathom five* or *pearls that were his eyes*, have been borrowed by other writers for hundreds of years. From the onset, however, *sea change* has consistently been the most popular. It has come to mean any pronounced transformation or metamorphosis. Along with the concept of paradigm shift, we use it to describe politics, scientific discoveries, and even business.

For most of the past ten years, growth stocks have outshined value stocks. And as the nearby chart from JPMorgan demonstrates, the valuation disparity is at an all-time high, with the market as a whole priced nearly 8 times richer than traditional value stocks like energy and financials.

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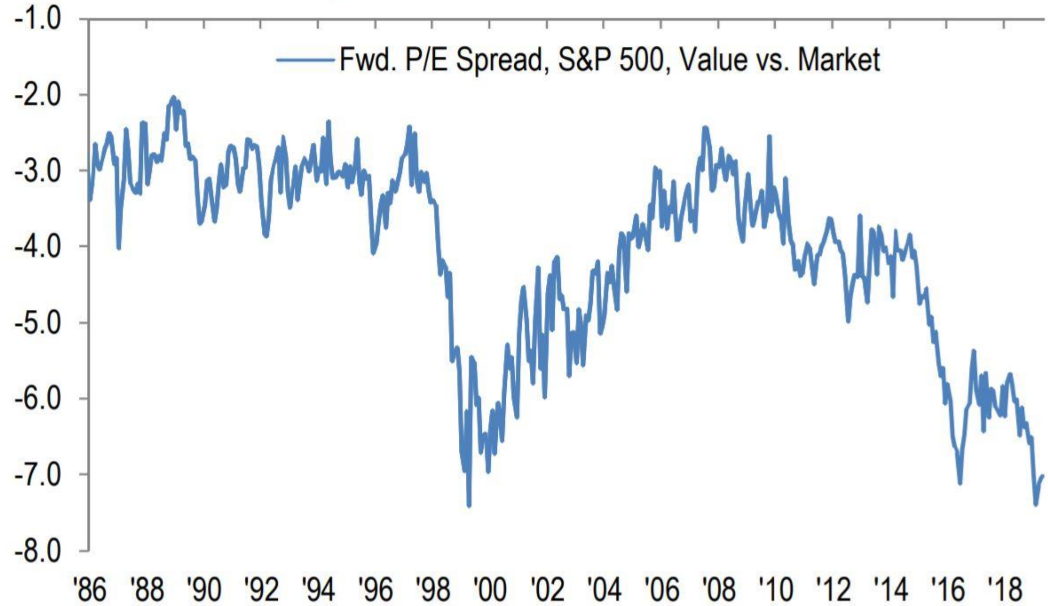
## Figure 34: Fwd P/E Spread – Value vs Market




Normally, our astute readers might expect a cautionary warning to follow such an obviously stunning graph. And, fear not, we'll not deprive you of the common-sense notion that none should frantically chase after much-hyped returns. Someday, someway the line above will drift up toward a more reasonable long-term mean. We just don't know if that new mean will be -4.0, -5.0, or something else.

And, such a move may take a long time.

Furthermore, what might surprise our clients and friends is that we believe there are enduring structural reasons why the most glamorous of big stocks might continue to warrant buoyant prices. There has been a sea change in the way business occurs and in the way investors invest.

1. Regulations that foster competition have not been able keep pace with the rapid evolution in technology. This aspect solidifies the position of gigantic, first-mover firms such as Amazon, Google, Microsoft, and others.
2. Many, many investors (and more every day) are plowing money into their retirement savings that invest in predictable, passive indexes. This is not a bad thing. However, it means that there is a constant push upward of the biggest of the big companies in the marketplace.

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Normally, by now we would have begun to heavily favor traditionally value companies. And we do continue to own some, of course. But with the sea changes mentioned above, starting about four years ago and continuing today, we have shifted investor portfolios toward growth away from our more traditional value footing. Even the quintessential value investor Warren Buffett has admitted to buying gobs of Amazon in recent months. Apparently, he sees the sea change, too.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

Jason Born, CFA
President

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