GLOBAL UPDATE

November 2017
Remembering Valuations

The following excerpt was taken entirely from a recent report written by Jesse Felder, a hedge fund manager in Bend, Oregon. In light of the current environment and valuations (which don't matter until they do), I thought it would be an interesting, quick read to put things in perspective. As the saying goes, "History doesn't repeat itself but it often rhymes".

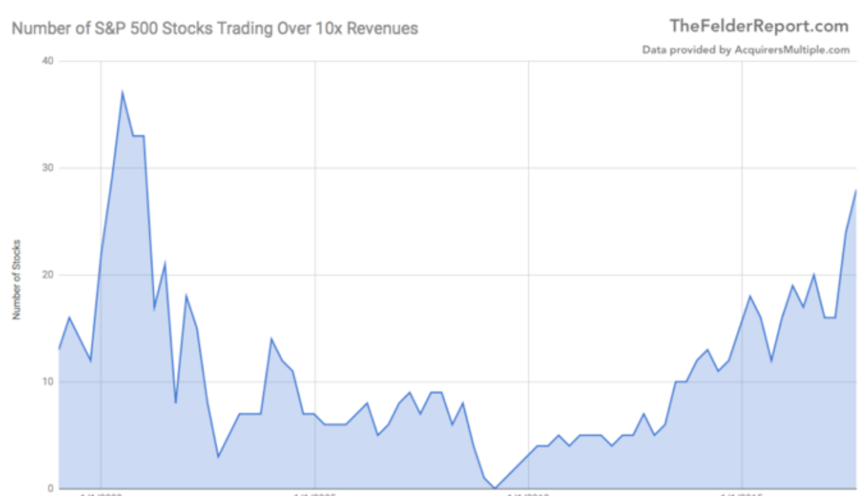
"My friend Eric recently shared an iconic quote from the dotcom mania that is especially relevant to the equity market today. Scott McNeely was the CEO of Sun Microsystems, one of the darlings of that bubble. At its peak his stock hit a valuation of ten-times revenues. A couple of years afterward he had this to say about that time (via Bloomberg):

At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at $64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?

Below is a chart of Sun Micro from 1996 to 2006. It started around $5 ran up to that $64 Scott mentions and then fell right back to $5. And you would think this might serve as a cautionary tale for investors today.

In that case, you thought wrong. Interestingly, there were 29 stocks within the S&P 500 that traded above ten times revenues at the peak of the dotcom mania (though that number did surge higher after prices had already peaked). Today, there are 28.

Facebook is one of those 28 and actually trades at over fifteen times revenues, more than 50% higher than Sun Micro did at its peak. Ironically, Facebook now resides at Sun's old headquarters. I don't know if they will follow the same path Sun did but it certainly looks like there are a ton of investors that will, at some point in the future, be asking themselves once again, 'what were you thinking?'"



Our warmest wishes to you and your family,

Brian Prichard & Your Team at 44 North Financial Partners

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The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks.

The US Aggregate Index covers the dollar-denominated investment-grade fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS passthrough securities, asset-backed securities, and commercial mortgage-based securities. These major sectors are subdivided into more specific subindices that are calculated and published on an ongoing basis. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. This index is rebalanced monthly by market capitalization.

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All Four One Bulls
DJIA Weekly, Range
Investors Intelligence
Advisors' Survey
Bull/Bear Ratio
4.2-to-1
4.0-to-1
27-year extreme
(since 1987)
.41-to-1
data courtesy of InvestorsIntelligence.com
22872.8
20000.0
15000.0
10000.0
2009 2010 2011 2012 2013 2014 2015 2016 2017
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Wed Oct 11 2017 15:27:23, CQG 15.9821