

January 4, 2019

On May 26th, 1896 Charles Dow and Edward Jones created the Dow Jones Industrial Average to track and measure the performance of the overall market for stocks traded on the New York Stock Exchange. I started with Paine Webber in 1987, so I've been closely following this index for 32 of those 123 years, or 26% of the historical history of the popular index. I hope that I've learned just a little bit about stock prices during these years.

The Dow made a high of 26,828 on 10/3/18, then abruptly dropped 5036 points to close on the low of the 4th quarter at 21,792 on 12/24/18. In November, the market made an attempt to recover, then sold off again in December to set a fresh low. I certainly don't know how the market will perform in 2019, but I have perfect clarity to know what has happened in the past.

The 5036 point decline, or 19%, is not unusual, it happens over and over and over again. It's always the same, stock prices are volatile. Amazon started 2018 at 1169, hit a high of 2039 in September, a low of 1343 in December, then ended the year at 1501. Of those four prices, which one was correct? What's the real value of Amazon? Why was Amazon worth \$870 more in September than it was worth in January?

There are no logical answers to any of those questions. The price of Amazon, and all stocks, is a constantly moving target based on investor emotion. When investors feel confidence, prices moves higher. Conversely, when fear is the prevailing emotion, prices head lower. But the company itself is mostly unchanged during this time of extreme volatility. Amazon the Company, not the stock, continues to destroy JC Penny, Sears, Best Buy and others. But the stock price has been all over the map while the Company continues to methodically destroy its competition regardless of the stock price.

Ray Kroc, one of the early founders of McDonalds, is quoted as saying "If any of my competitors were drowning, I'd stick a hose in their mouth and turn on the water...." There is no way any corporate executive would ever utter such language in today's politically correct environment. Any spoken or written words like that would surely result in instant termination. Just because no one would ever say anything like that today doesn't mean that this mantra is not alive and well in American business. When I look for stocks for investment, I like to think about which end of the hose the company occupies.

When Amazon is \$500 less than a few months ago, I buy. Rarely, do I capture the perfect low, but the questions that I ask, Is there a new competitive threat to Amazon? Answer: No. Will Amazon continue to have success over the next five years similar to the past five years? Answer: Yes. Investors who own General Electric, AT&T, Gap, General Motors, Whirlpool, Blue Apron, Campbell Soup, or IBM have plenty of reasons to panic. These companies are all on the wrong end of the garden hose. My clients own Google, Amazon, Apple and Costco, and I'm a buyer of these high quality stocks at a discounted price.

I have experienced many market declines similar, or much worse, than the decline in the 4th quarter of 2018. In every one of those past market declines, the market averages made a low, then recovered over time to make new all-time highs sometime thereafter. I don't believe that it will be different this time. My experience says that the market will consolidate back and forth for a while, then launch another move higher to new all-time highs. I don't know how long that takes, I just know that my favorite stocks are a lot cheaper than before.

Please call or email anytime if you have questions or would like to discuss strategy. Happy New Year.

Sincerely,



Jim Aljian