# September 2018

Compared to Thursday's and Friday's political fireworks, stocks barely budged in September, with our MSCI All World benchmark down 0.02% for the month. As anticipated, the Fed raised interest rates again last week, with the 10-year U.S. Treasury yield once again above 3%. While we don't believe in trying to time the market, we do find it useful to have an economic outlook. As some of you are aware, we have been long-term subscribers to BCA Research's weekly Global Investment Strategy, and usually share extensively from their quarterly Strategy Outlooks. From September 28th's "2018 Q4: Desynchronization Is Back":

## I. Economic Outlook

**The Fed Can Hike A Lot More**

If 2017 was the year of a synchronized global growth recovery, 2018 is turning out to be a year where desynchronization is once again the name of the game. The U.S. economy continues to fire on all cylinders, while much of the rest of the world is struggling to stay afloat.

The divergence in economic outcomes has been mirrored in central bank policy. The Fed is now hiking rates once per quarter whereas most other major central banks are still sitting on their hands.

How high can U.S. rates go? The answer is a lot higher than investors anticipate. Market participants currently expect the Fed funds rate to rise to 2.37% by the end of this year and 2.84% by the end of 2019. No rate hikes are priced in for 2020 and beyond.

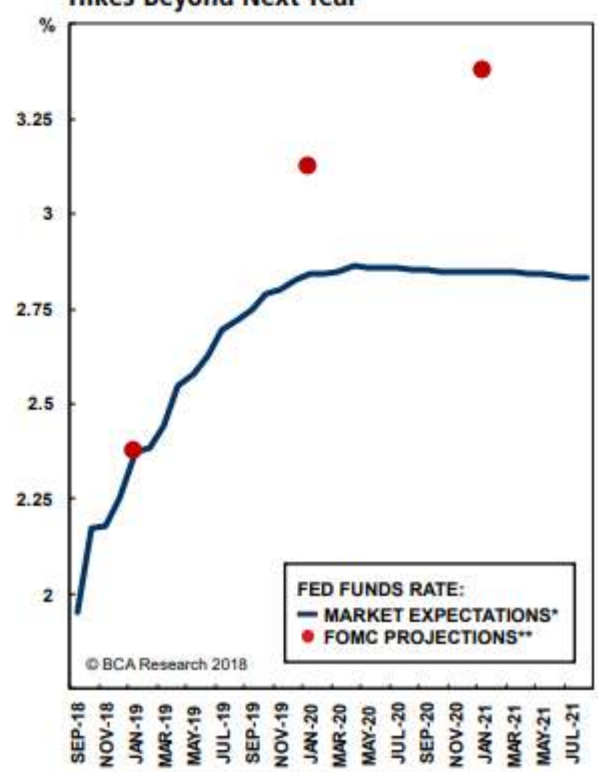
The Fed dots are somewhat higher than market expectations (Chart 1). The median dot rises to about 3.4% in 2020-21, but then falls back to 3% over the Fed’s longer-run horizon.

Both investors and the Fed have apparently bought into Larry Summers’ secular stagnation thesis. They seem convinced that rates will not be able to rise above 3% without triggering a recession.

While we have a lot of sympathy for Summers’ thesis, it must be acknowledged that it is a theory about the long-term determinants of the neutral rate of interest. Over a shorter-term cyclical horizon, many factors can influence the neutral rate. Critically ... most of these factors are pushing it higher:

- Fiscal policy is extremely stimulative. The IMF estimates that the U.S. cyclically-adjusted budget deficit will reach 6.8% of GDP in 2019. In contrast, the euro area is projected to run a deficit of only 0.8% of GDP. The relatively more expansionary nature of U.S. fiscal policy is one key reason why the Fed can raise rates while the ECB cannot.

CHART 1
Markets Expect No Fed Hikes Beyond Next Year




* REFERS TO EXPECTATIONS OF THE AVERAGE DAILY FED FUNDS RATE DURING THE MONTH AS DISCOUNTED BY THE FED FUNDS FUTURES MARKET.
** FOMC MEDIAN PROJECTIONS FROM SEPTEMBER 2018.

➢ Credit growth has picked up. After a prolonged deleveraging cycle, private-sector nonfinancial debt is increasing faster than GDP. The recent easing in The Conference Board's Leading Credit Index suggests that this trend will continue.

➢ Wage growth is accelerating. Average hourly earnings surprised on the upside in August, with the year-over-year change rising to a cycle high of 2.9%. This followed a stronger reading in the Employment Cost Index in the second quarter. A simple correlation with the quits rate suggests that there is plenty of upside for wage growth. Faster wage growth will put more money into workers' pockets who will then spend it.

➢ The savings rate has scope to fall. The personal savings rate currently stands at 6.7%, more than two percentage points higher than what one would expect based on the current level of household net worth. If the savings rate were to fall by two points over the next two years, it would add 1.5% of GDP to aggregate demand.

A back-of-the-envelope calculation suggests that these cyclical factors will permit the Fed to raise rates to 5% by 2020, almost double what the market is discounting.

CHART 7
**Low Housing Inventories Will Support Home Prices And Construction**

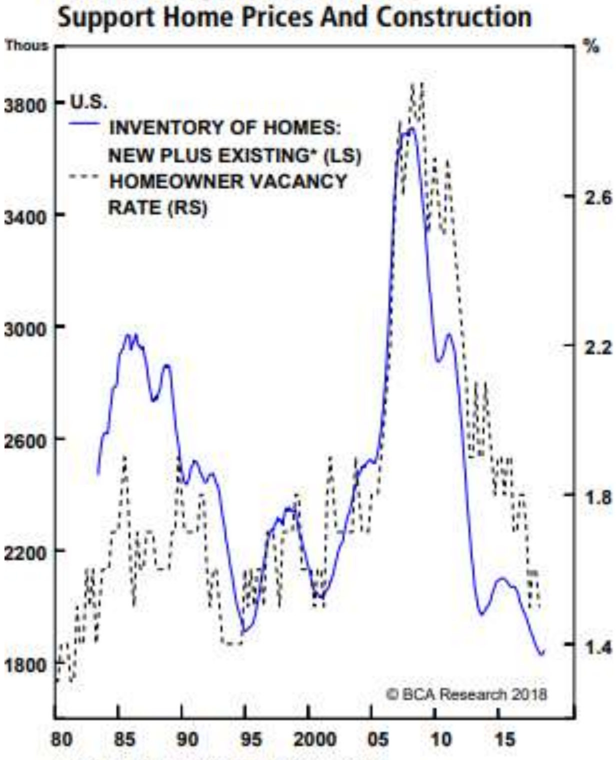
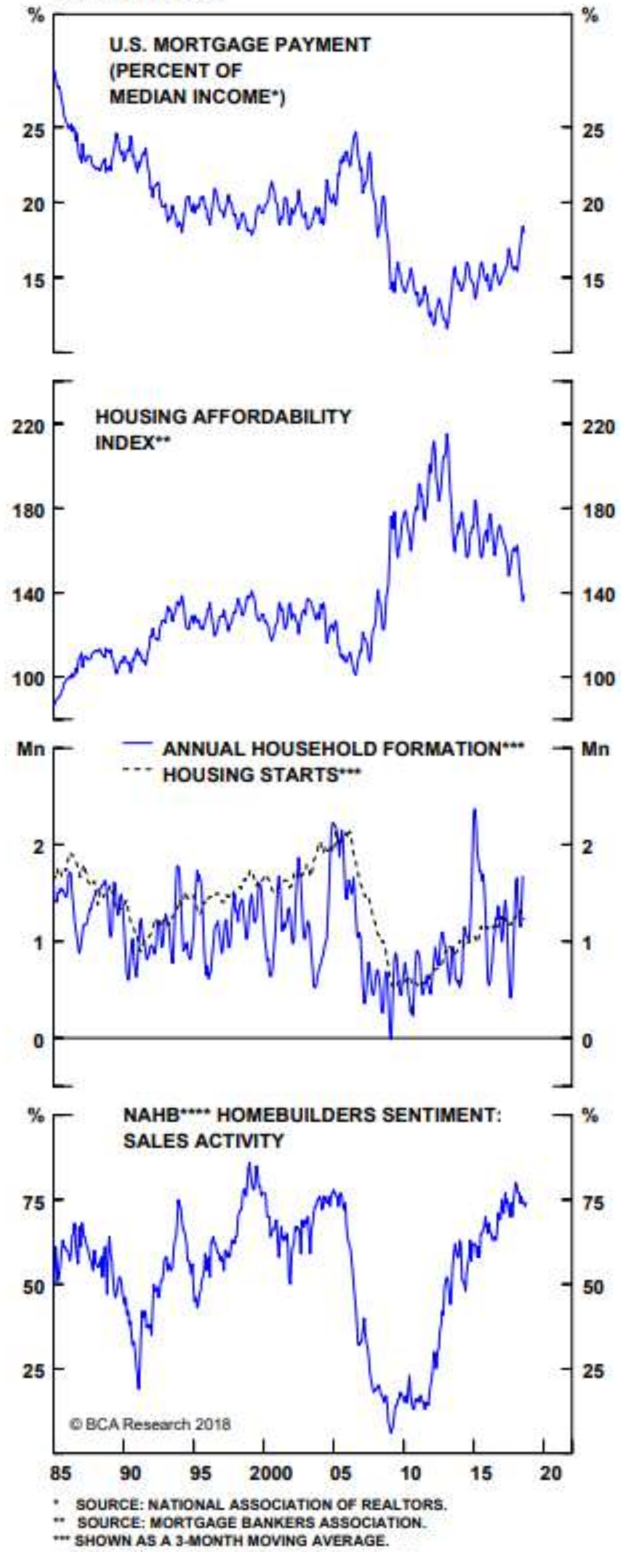



CHART 8
**Housing Affordabiity Is Not Yet Stretched**



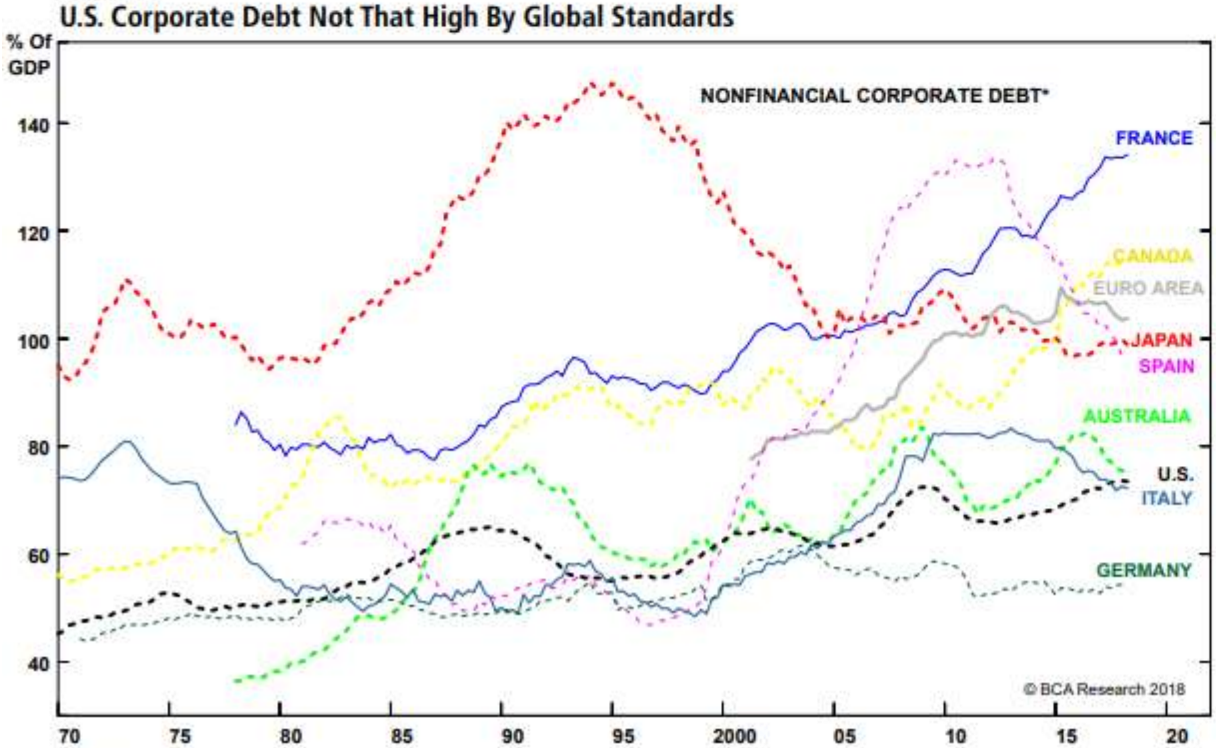
**An Absence Of Major Financial Imbalances Will Allow The Fed To Keep Raising Rates**

The past three recessions were all caused by financial market overheating rather than economic overheating. The 1991 recession was mainly the consequence of the Savings and Loan crisis, compounded by the spike in oil prices leading up to the Gulf War. The 2001 recession stemmed from the dotcom bust. The Great Recession was triggered by the housing bust. Today, it is difficult to point to any clear imbalances in the economy.

True, housing activity has been weak for much of the year. However, unlike in 2006, the home vacancy rate stands near record-low levels (Chart 7). Tight supply will limit downside risks to both construction and home prices. On the demand side, low unemployment, high consumer confidence, and a rebound in the rate of new household formation should help the sector. Despite elevated home prices in some markets, the average monthly payment that homeowners must make to service their mortgage is quite low by historic standards (Chart 8). The quality of mortgage lending has also been very high over the past decade, which reduces the risk of a sudden credit crunch.

Unlike housing debt, there are more reasons to be concerned about corporate debt. The ratio of corporate debt-to-GDP has risen to record-high levels. So-called "covenant-lite" loans now make up the bulk of corporate leveraged loan issuance. While there is no doubt that the corporate debt market is the weakest link in the U.S. financial sector, some perspective is in order. U.S. corporate debt levels are quite low by global standards. Corporate debt in the euro area is more than 30 points higher as a percent of GDP than in the United States (Chart 10). Moreover, the interest coverage ratio – EBIT divided by interest expense – for U.S. corporates is still above its historic average (Chart 11). While this ratio will fall as interest rates rise, this will not happen very quickly. Most U.S. corporate debt is at fixed rates and average maturities have been rising. This reduces both rollover risk and the sensitivity of debt servicing costs to higher short-term rates.

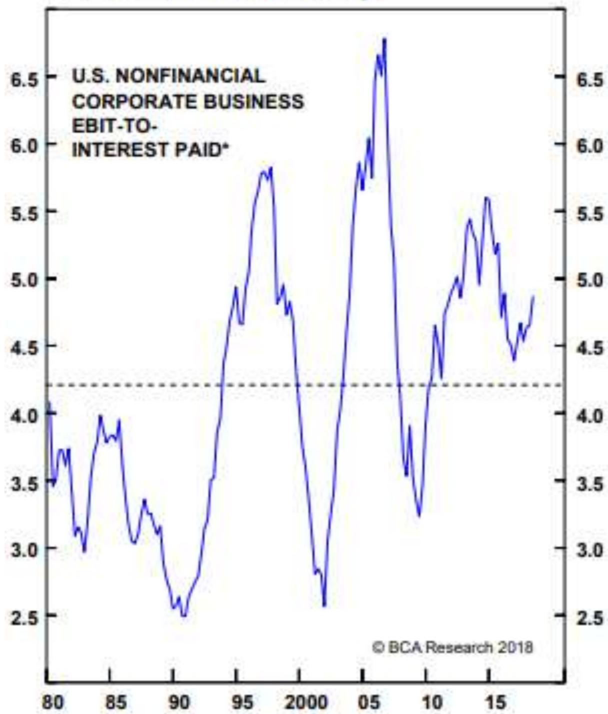
CHART 10
U.S. Corporate Debt Not That High By Global Standards



* SOURCE: BIS.

An increasing share of U.S. corporate debt is held by non-leveraged investors. Bank loans account for only 18% of nonfinancial corporate sector debt, down from 40% in 1980. This is important, because what makes a spike

CHART 11
**Interest Coverage Ratio Is Above Its Historic Average**

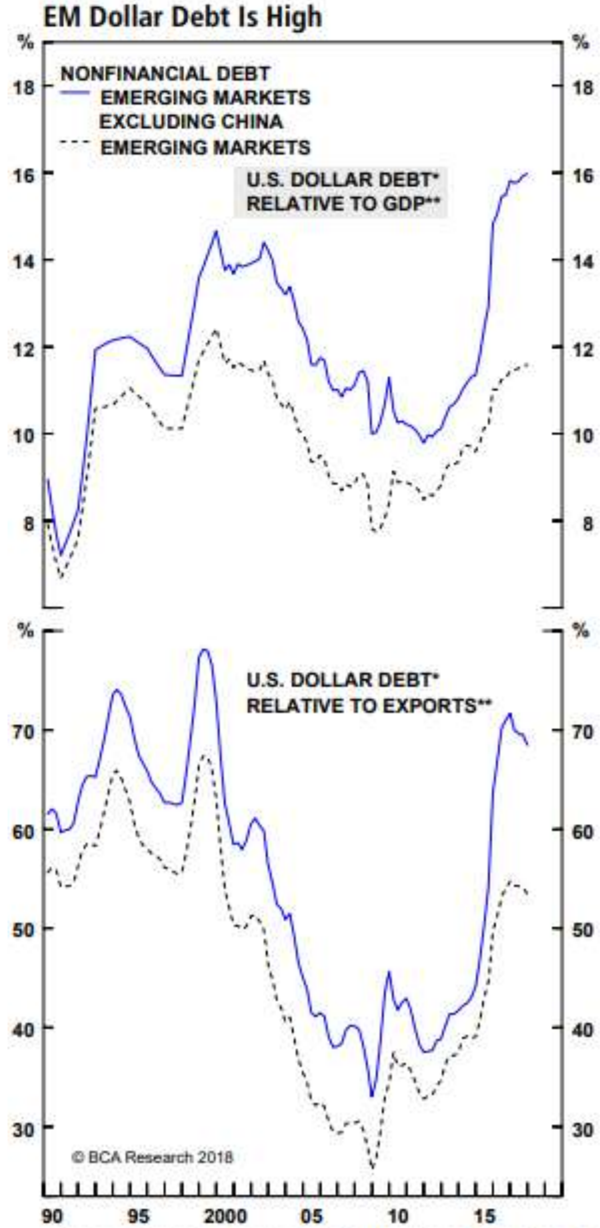



* SOURCE: BUREAU OF ECONOMIC ANALYSIS.
NOTE: HORIZONTAL DASHED LINE REPRESENTS MEAN FROM 1980 TO PRESENT.

in corporate defaults so damaging is not the direct impact this has on the economy, but the second-round effects rising defaults have on financial sector stability.

In any case, we already had a dress rehearsal for what a corporate debt scare might look like. Credit spreads spiked in 2015. Default rates rose, but the knock-on effects to the financial system were minimal. This suggests that corporate America could handle a fair bit of monetary tightening without buckling under the pressure.

CHART 14
**EM Dollar Debt Is High**




* SOURCE: BANK FOR INTERNATIONAL SETTLEMENTS (BIS) AND WORLD BANK. BIS DATA FROM 2000. BACK ESTIMATES FOR THE 1990-2000 PERIOD ARE BCA CALCULATED BASED ON EXTERNAL DEBT DATA FROM THE WORLD BANK'S INTERNATIONAL DEBT STATISTICS.
** SOURCE: IMF.

**The Fed And The Dollar**

If the Fed is able to raise rates substantially more than the market is discounting while most central banks cannot, the short-term interest rate spread between the U.S. and its trading partners is likely to widen. History suggests that this will produce a stronger dollar. ...

**Emerging Markets In The Crosshairs**

The combination of rising U.S. rates and a stronger dollar is bad news for emerging markets. Eighty percent of EM foreign-currency debt is denominated in dollars. Outside of China, EM dollar debt is now back to late1990s levels, both as a share of GDP and exports (Chart 14).

The wave of EM local-currency debt issued in recent years only complicates matters. If EM central banks raise rates to defend their currencies, this could imperil economic growth and make it difficult for local-currency borrowers to pay back their loans.

Rather than hiking rates, some EM central banks may simply choose to inflate away debt. Consider the case of Brazil. The fiscal deficit stands at nearly 8% of GDP and government debt has soared from 60% of GDP in 2013 to 84% of GDP at present. Ninety percent of Brazilian sovereign debt is denominated in reais. The Brazilian government won't default on its debt per se. However, if push comes to shove, Brazil's central bank can always step in to buy government bonds, effectively monetizing the fiscal deficit. This could cause the real to weaken much more than it already has.

**Chinese Stimulus To The Rescue?**

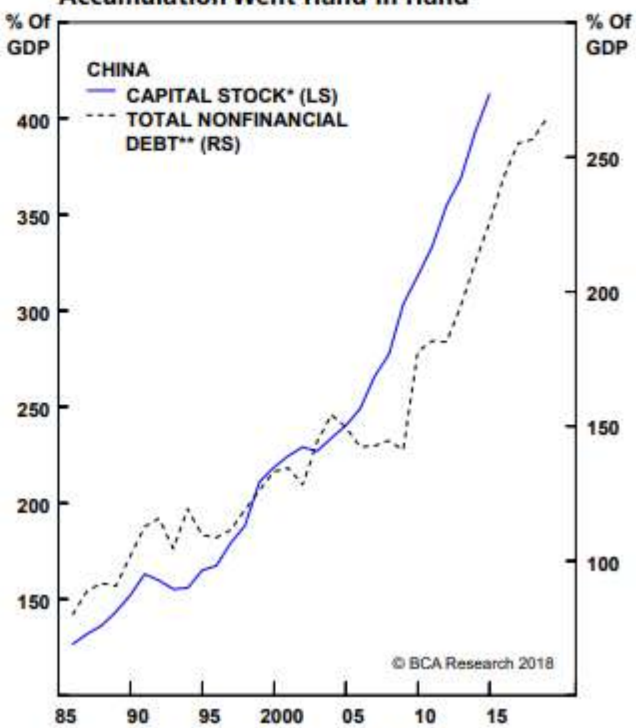
When emerging markets last succumbed to pressure in 2015, China saved the day by stepping in with massive stimulus. Fiscal spending and credit growth accelerated to over 15% year-over-year. The government's actions boosted demand for all sorts of industrial commodities. The stimulus measures in 2015 followed an even greater wave of stimulus in 2009.

While these stimulus measures invigorated China's economy and helped put a floor under global growth, they came at a price: China's debt-to-GDP ratio has swollen from 140% in 2008 to over 250% at present, which has endangered financial stability (Chart 16). Excess capacity has also increased. This can be seen in the dramatic rise in the capital-to-output ratio. It can also be seen in the fact that the rate of return on assets within the Chinese state owned enterprise sector, which has been the main source of rising corporate leverage, has fallen below borrowing costs.

Chinese banks are being told that they must lend more money to support the economy, while ensuring that their loans do not turn sour. Unfortunately, that is becoming an impossible feat.

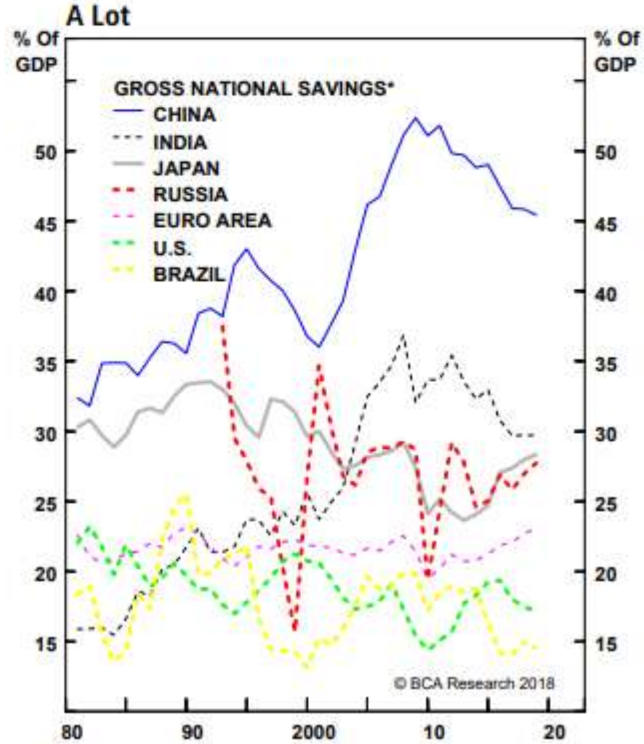
The Chinese economy produces too much and spends too little. The result is excess savings, epitomized most

CHART 16
**China: Debt And Capital Accumulation Went Hand In Hand**




* BASED ON 2011 CURRENT INTERNATIONAL PURCHASING POWER PARITY DOLLARS. SOURCE: PENN WORLD TABLES.
** NONFINANCIAL PRIVATE DEBT PLUS PUBLIC DEBT; SOURCE: IMF AND BIS.

CHART 18
**China Saves A Lot**




* SOURCE: IMF.

clearly in a national savings rate of 46% (Chart 18). As a matter of arithmetic, national savings must be transformed either into domestic investment or exported abroad via a current account surplus. Now that the former strategy has run into diminishing returns, the Chinese authorities will need to concentrate on the latter. This will require a larger current account surplus which, in turn, will necessitate a relatively cheap currency. ...

Unlike standard Chinese fiscal/credit easing, a stimulus strategy focused on weakening the yuan would hurt other emerging markets by undermining their competitiveness in relation to China. A weaker yuan would also make it more expensive for Chinese companies to import natural resources, thus putting downward pressure on commodity prices.

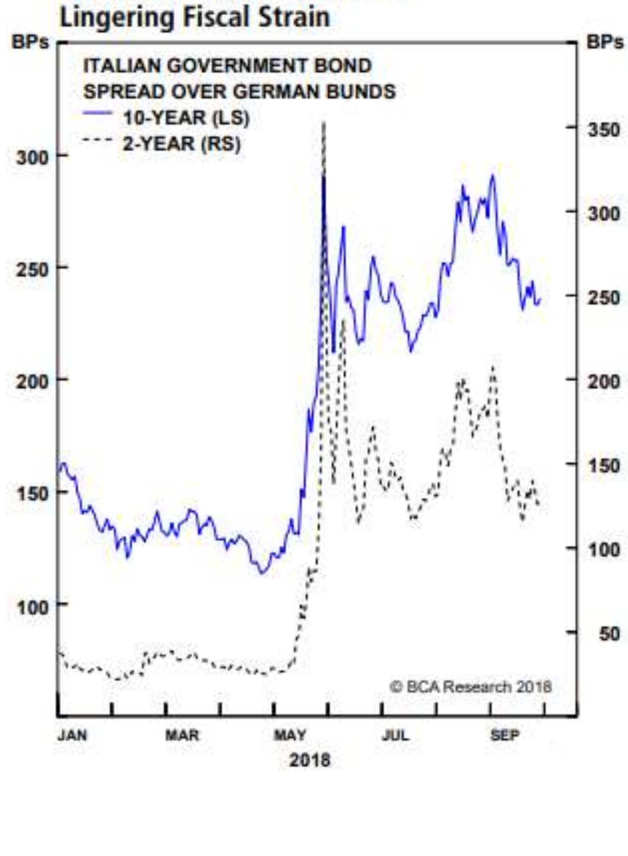
**The Euro Area: Back In The Slow Lane**

After putting in a strong performance in 2017, the economy in the euro area has struggled to maintain momentum this year. Growth is still above trend, but the overall tone of the data has been lackluster at best, with the risks to growth increasingly tilted to the downside.

Weaker growth in China and other emerging markets certainly has not helped. However, much of the problem lies closer to home. Bank credit remains the lifeblood of the euro area economy. ... Euro area credit growth accelerated over the course of 2017, but has been broadly stable this year. As a result, the credit impulse has fallen, taking GDP growth down with it.

It will be difficult for euro area GDP growth to increase unless credit growth starts rising again. So far, there is little sign that this is about to happen. According to the latest euro area bank lending survey, while banks continue to ease standards for business loans, they are doing so at a slower pace than in the past. A net 3% of banks eased lending standards in the second quarter, compared to 8% in the first quarter. Loan demand growth has been fairly stable. This suggests that loan growth will remain positive, but is unlikely to increase much from current levels.

CHART 23
**Italian/Bund Spreads Signal Lingering Fiscal Strain**




Worries about the health of European banks will further constrain credit growth. European banks in general, and Spanish banks in particular, have significant exposure to the most vulnerable emerging markets.

Concerns about the ability of the Italian government to service its debt obligations will also restrain bank lending. Investors breathed a sigh of relief last month when the Italian government signaled a greater willingness to pare back next year’s proposed budget deficit, in accordance with the dictates of the European Commission.

Tensions remain, however, as evidenced by the fact that the ten-year spread between BTPs and German bunds is still 120 basis points higher than in April (Chart 23). The European political establishment is terrified of the rise in populism across the region and would love nothing more than to see Italy’s populist parties implode. This means that any help from the ECB and the European Commission will only arrive once a full-fledged crisis is underway.

Anyway, it is far from clear that a smaller budget deficit would actually translate into a lower government debt-to-GDP ratio. Like China, Italy also has a private sector that saves too much and spends too little. A shrinking population has reduced the need for firms to invest in new capacity. The prior government's pension cuts have also incentivized people to save more for their retirement. The result is a private sector savings-investment surplus that stood at 5% of GDP in 2017 compared to close to breakeven a decade ago.

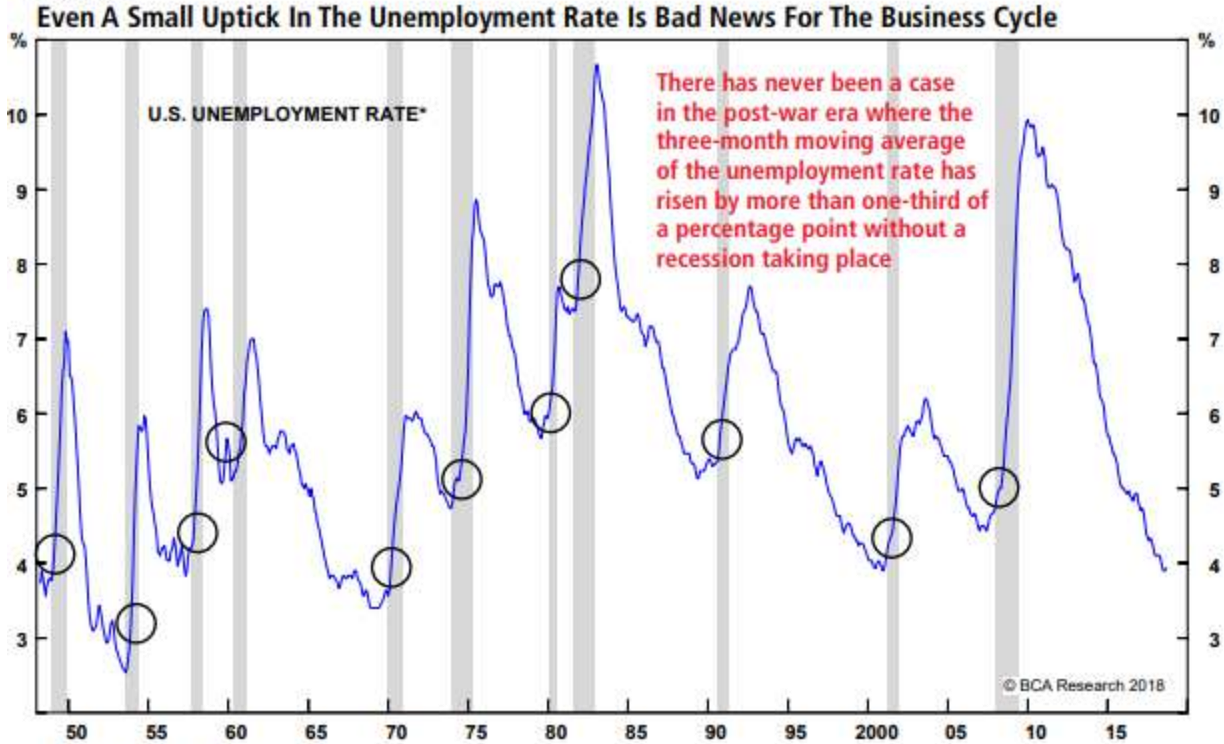
Unlike Germany, Italy cannot export its excess production because it does not have a hypercompetitive economy. Nor does it have the ability to devalue its currency to gain a quick competitiveness boost. This means that the Italian government has to absorb excess private-sector savings with its own dissavings – a fancy way of saying that it has to run a large budget deficit. This has effectively been Japan's strategy for over two decades. However, unlike Japan, Italy does not have a lender of last resort that can unconditionally buy government debt. This raises the risk that Italy's debt woes will resurface, either because the government abandons austerity measures, or because the lack of fiscal support causes nominal GDP to stagnate, making it all but impossible for the country to outgrow its debt burden.

**Receding Policy Puts**

... Yes, the Fed will ease off on rate hikes if U.S. growth is at risk of stalling out completely. However, now that the labor market has reached full employment, the Fed will welcome modestly slower growth. Remember that there has never been a case in the post-war era where the three-month average of the unemployment rate has risen by more than a third of a percentage point without a recession taking place (Chart 25). The further the unemployment rate falls below NAIRU, the more difficult it will be for the Fed to achieve the proverbial soft landing.

CHART 25

Even A Small Uptick In The Unemployment Rate Is Bad News For The Business Cycle




* SHOWN AS A 3-MONTH MOVING AVERAGE.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS; CIRCLES IN THE CHART DENOTE THE TIMES WHEN THE 3-MONTH MOVING AVERAGE OF THE UNEMPLOYMENT RATE INCREASED BY MORE THAN ONE-THIRD OF A PERCENTAGE POINT FROM RECENT LOWS.

... the presumption that most investors have that the Chinese authorities will launch a barrage of fiscal and credit easing at the first sign of slower growth – has become less reliable in light of the government's competing objectives namely reducing debt growth and excess capacity. ... Yes, the ECB will bail out Italy if the entire European project appears at risk. But spreads may need to blow out before the cavalry arrives.

Meanwhile, just as the aforementioned policy puts are receding, new policy risks are rising to the fore, chief among them protectionism. We expect the trade war to heat up, with the Trump administration increasingly directing its ire at China. Trump's macroeconomic policies are completely at odds with his trade agenda. Fiscal stimulus will boost aggregate demand, which will suck in more imports. An overheated economy will prompt the Fed to raise rates more aggressively than it otherwise would, leading to a stronger dollar. All this will result in a wider trade deficit. What will Trump tell voters two years from now when he is campaigning in Michigan and Ohio about why the trade deficit has widened rather than narrowed under his watch? Will he blame himself or Beijing? No trophy for getting that answer right.

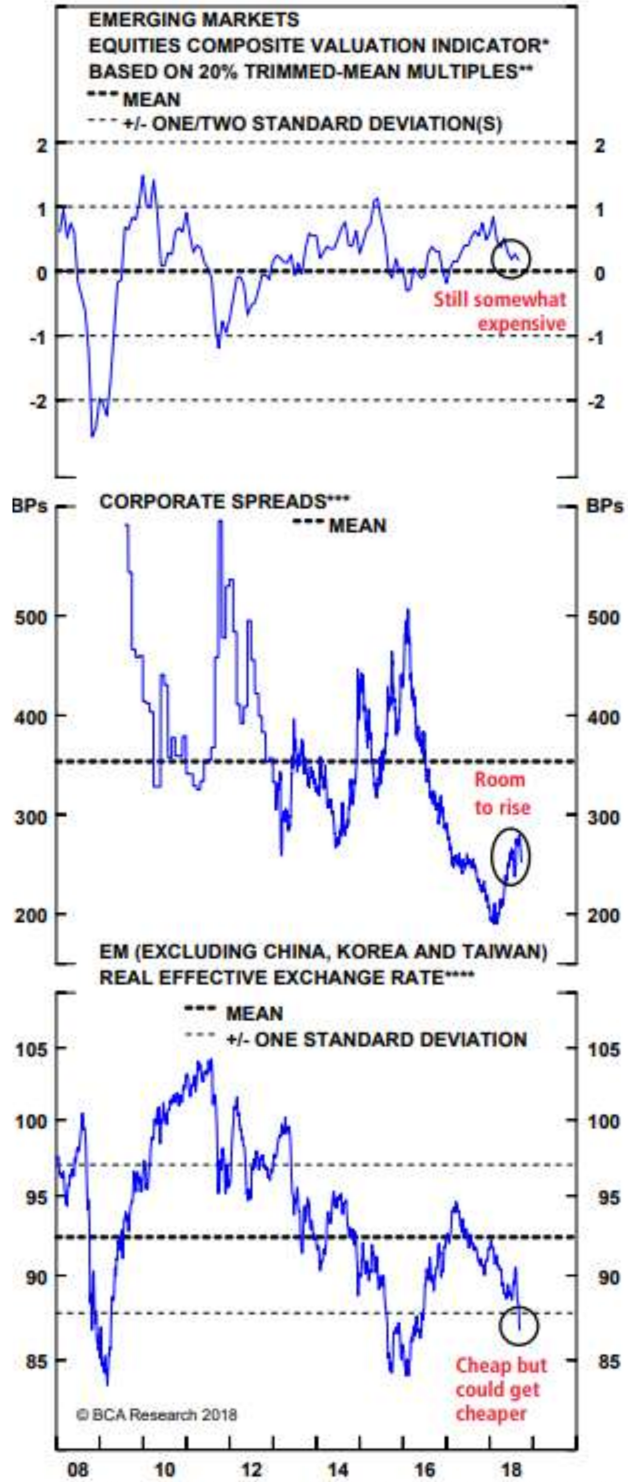
## II. Financial Markets

### Global Equities

The combination of slower global growth, rising economic vulnerabilities outside the U.S., and a more challenging policy environment caused us to downgrade our view on global equities from overweight to neutral in June, while reiterating our preference for developed market equities relative to EM stocks.

For now, we are comfortable with our bearish view towards emerging market stocks. While EM equities have cheapened, they are not yet at washed out levels (Chart 26). ...

CHART 26
**EM Assets: Valuations Not Yet At Washed Out Levels**



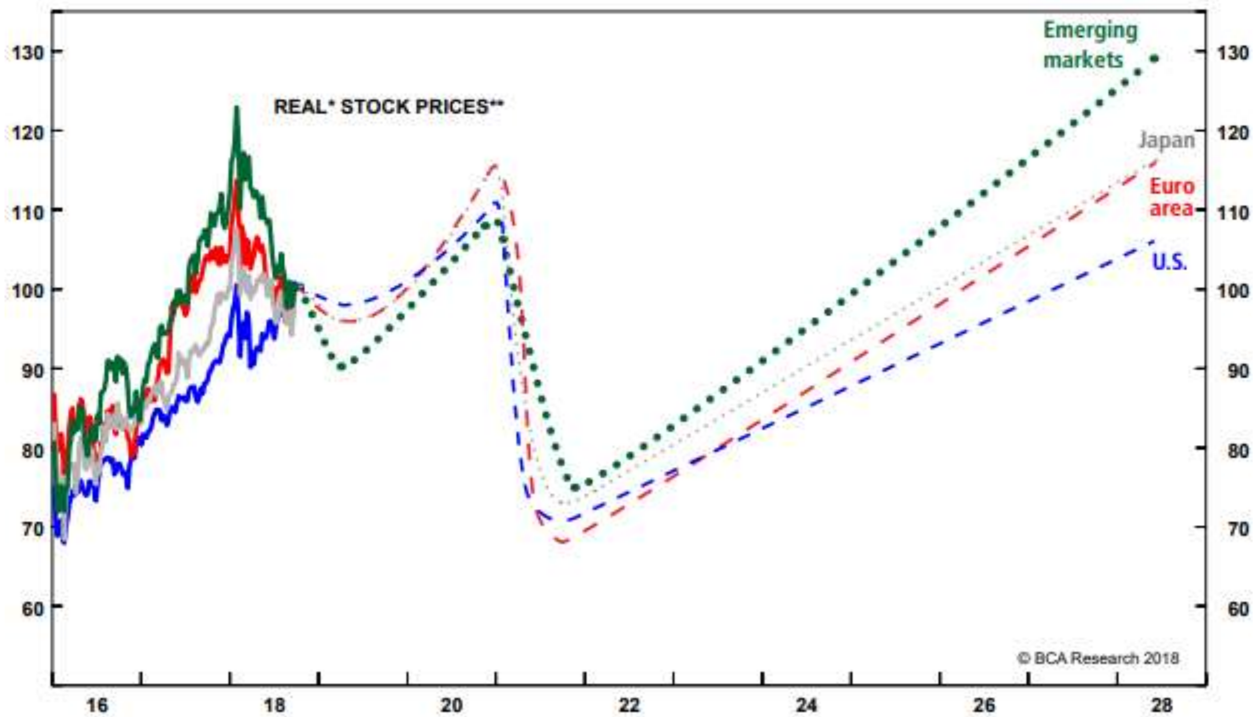

* BASED ON TRAILING AND FORWARD PRICE-TO-EARNINGS, PRICE-TO-BOOK VALUE, PRICE-TO-CASH EARNINGS RATIO, AND DIVIDEND YIELD, STANDARDIZED. SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION) AND IBES.
** BASED ON 50 INDUSTRY SUB-SECTORS BY TRIMMING TOP 10% AND BOTTOM 10% SERIES.
*** CORPORATE AND QUASI-SOVEREIGN OPTION-ADJUSTED SPREADS; SOURCE: BLOOMBERG BARCLAYS INDICES.
**** INCLUDES 16 DEVELOPING ECONOMIES, EQUITY MARKET CAP WEIGHTED; BASED ON AVERAGE OF PPI AND CPI. BASED ON J.P. MORGAN CHASE & CO. DATA.

At some point – probably in the first half of next year – investors will liquidate their remaining bullish EM bets. At that point, EM stocks will rebound. European and Japanese equities should also start to outperform the U.S., given their more cyclical nature. As far as the absolute direction of the S&P 500 is concerned, the next few months could be challenging. U.S. stocks have been able to decouple from those in the rest of the world, but this state of affairs may not last. Recall that the S&P 500 fell by 22% peak-to-trough between July 20 and October 8, 1998, in what otherwise was a massive bull market. We do not know if there is another Long-Term Capital Management lurking around the corner, but if there is, a temporary selloff in U.S. stocks may be hard to avoid.

Such a selloff would present a buying opportunity over a horizon of 12-to-18 months. If we are correct that cyclical forces have lifted the neutral rate of interest, it will take a while for monetary policy to reach restrictive territory. This means that both fiscal and monetary policy will stay accommodative at least for the next 18 months. As such, the S&P 500 may not peak until 2020.

Appendix A – Chart I presents a stylized diagram of where we think global equities are going. It incapsulates three phases: 1) a challenging period over the next six months, driven by EM weakness; 2) a blow-off rally in equities starting in the middle of next year; 3) and finally, a recession-induced bear market beginning in late-2020. ...

APPENDIX A CHART I
**Market Outlook: Equities**




* DEFLATED BY HEADLINE CONSUMER PRICE INDEX.
** SHOWN REBASED SEPTEMBER 2018 = 100 AND IN U.S. DOLLAR TERMS; SOURCE: MSCI INC.
NOTE: DASHED LINES REPRESENT FORECASTS.

**Fixed Income**

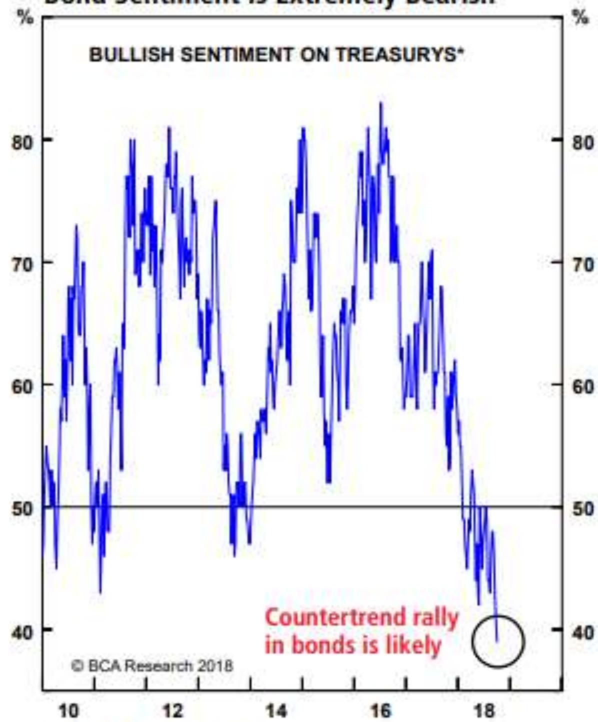
After advocating for a long duration strategy for much of the post-crisis recovery, BCA declared "The End Of The 35-Year Bond Bull Market" on July 5, 2016, the very same day that the 10-year U.S. Treasury yield hit a record closing low of 1.37%.

Cyclically and structurally, we continue to expect U.S. bond yields to rise more than the market is discounting. As noted above, the Fed is underestimating how high rates will need to go before they reach restrictive territory. This means that the Fed will end up behind the curve in normalizing monetary policy, causing the economy to overheat and inflation to rise above the Fed's comfort zone.

Granted, the Fed is willing to tolerate a modest inflation overshoot. However, a core PCE reading above 2.3%, which is at the top end of the range of the Fed's own forecast, would prompt the Fed to expedite the pace of rate hikes. A bear flattening of the yield curve – a situation where long-term yields rise, but short-term rates go up even more – would be highly likely in that environment.

Over a shorter-term horizon spanning the next six months, the outlook for yields is more benign. The combination of a stronger dollar, slower global growth, and flight-to-quality flows into the Treasury market from vulnerable emerging markets can cap yields. Add to this the fact that sentiment towards bonds is currently extremely bearish (Chart 28), and a temporary countertrend decline in yields becomes quite probable.

CHART 28
Bond Sentiment Is Extremely Bearish



* SOURCE: MARKETVANE.NET.

Developed market bond yields in general are likely to follow the direction of U.S. yields, both on the upside and the downside, but in a more muted manner. Outside the periphery, euro area yields have less scope to fall in the near term given that they are already so low. European yields also have less room to rise once global growth bottoms next year because the neutral rate of interest is much lower in the euro area than in the United States.

Ironically, a more dovish ECB would help reduce Italian bond yields, as higher inflation is critical for increasing Italian nominal GDP. Since labor market slack is still elevated in Italy, continued monetary stimulus would also lift wages in core Europe more than in Italy, helping to boost Italy's competitiveness relative to the rest of the euro area.

Japanese yields have plenty of scope to rise over the long haul. An aging population is pushing more people into retirement, which will cause the national savings rate to fall further. A decline in the savings pool will increase the neutral rate of interest in Japan. Instead of raising the policy rate, the Japanese authorities will let the economy overheat, generating inflation in the process. This will cause the yield curve to steepen, particularly at the very long end (e.g., beyond 10 years) which is the part of the yield curve that is the least susceptible to the BoJ's yield curve control regime. ...

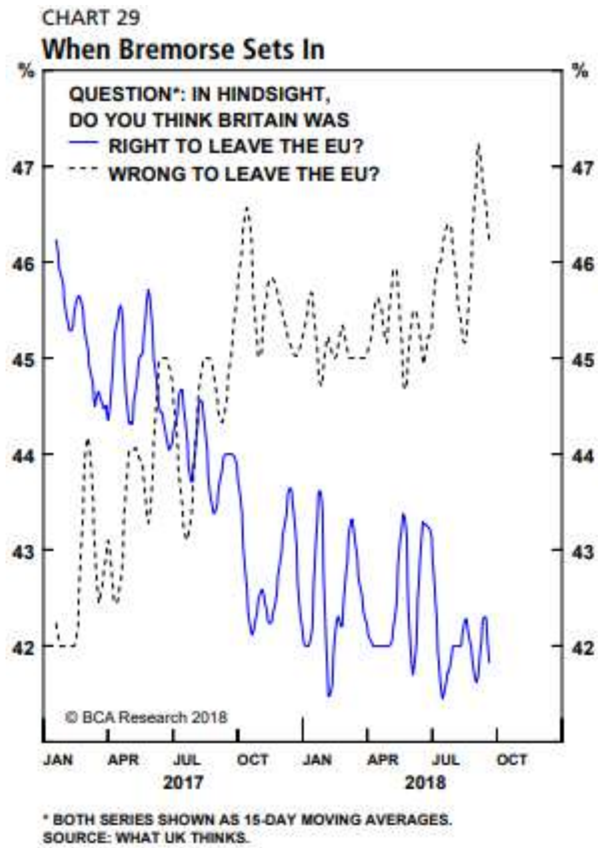
Turning to credit markets, high-yield credit (Junk Bonds) typically underperforms in the latter innings of business cycle expansions, a period when the Fed is raising rates. Thus, while we do not think that U.S. corporate debt levels will be a major source of systemic financial risk for the broader economy, this is hardly a reason to be overweight spread-product. A more cautious stance towards credit outside the U.S. is also warranted.

**Currencies And Commodities**

The dollar is working off overbought conditions, but will rebound into year-end, as EM tensions intensify and hopes of a massive credit/fiscal-fueled Chinese stimulus package fizzle. EM currencies will weaken the most against the dollar over the next three-to-six months, but the euro and, to a lesser extent, the yen, will also come under pressure.

Granted, the dollar is no longer a cheap currency, but if long-term interest rate differentials stay anywhere close to current levels, the greenback will remain well supported. ...

Sterling will remain hostage to Brexit negotiations. It is impossible to know how talks will evolve, but our bias is to take a somewhat pound-positive view. The main reason is that support for Brexit has faded (Chart 29). Opinion polls suggest that if a referendum were held again, the "bremain" side would almost certainly prevail. Lacking public support for leaving the EU, it is unlikely that British negotiators could simply walk away from the table. This reduces the odds of a "hard Brexit" outcome. Indeed, a second referendum that leads to a "no-Brexit" verdict remains a distinct possibility. ...




The supply backdrop for oil is also more favorable than for metals. Not only are Saudi Arabia and Russia maintaining production discipline, but U.S. sanctions against Iran threaten to weigh on global crude supply. Further reduction in Venezuela's oil output, as well as potential disruptions to Libyan or Iraqi exports, could also boost oil prices. (HMC clients investing in individual stocks are overweight Energy.)

... We also see an increasing chance that Canada will negotiate a revamped trade deal with the U.S., as Trump focuses his attention more on China. Should this happen, it will remove the NAFTA break-up risk discount embedded in the Canadian dollar.

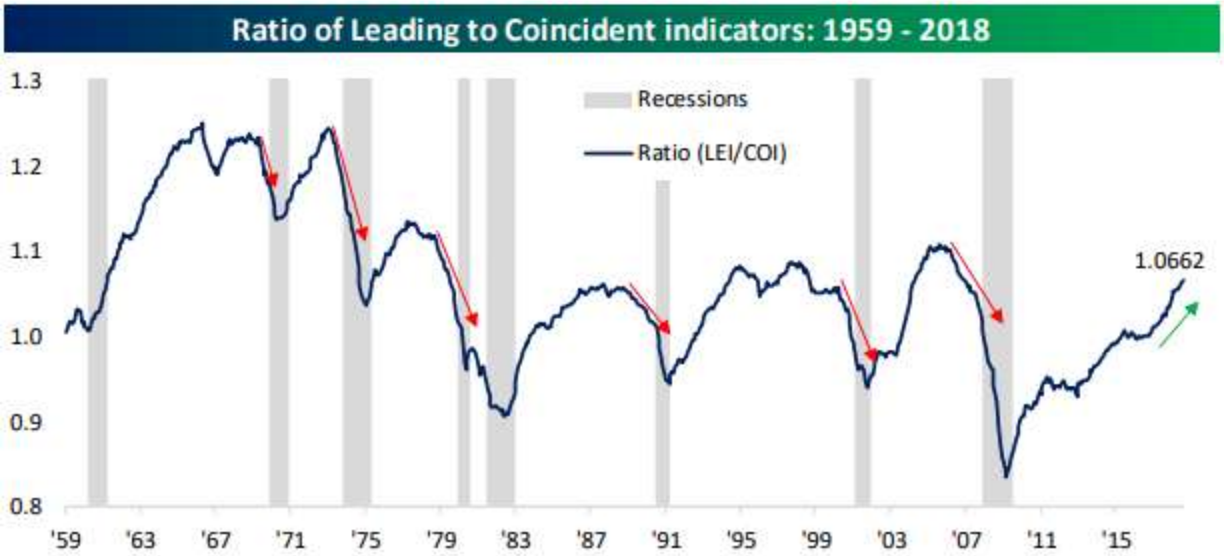
Finally, a few words on precious metals. Precious metals typically struggle during periods when the dollar is appreciating. Consequently, we would not be eager buyers of gold or other precious metals until the dollar peaks, most likely around the middle of next year. As inflation starts to accelerate in late-2019 and in 2020, gold will finally move decisively higher.

The first of 2 from Bespoke supports the above analysis:

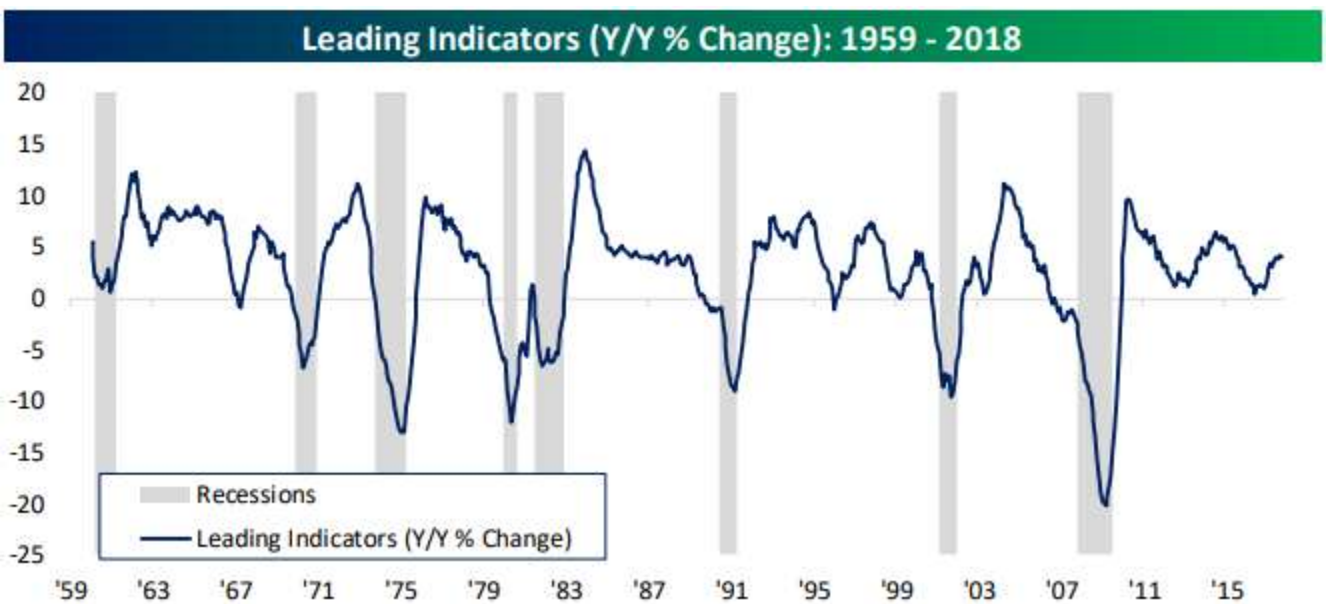
# Leading Indicators Shows No Signs of Slowing

Sep 24, 2018

The Leading Indicators report released this past Thursday reinforced signals of a strong US economy. From this release, there do not appear to be signs of a looming recession. Below we show the ratio of Leading Indicators to Coincident Indicators over the past 60 years. Historically, this ratio has been a very good leading indicator of recessions. Typically, but not always, when the ratio peaks then begins to fall, a recession is around the corner. This does not mean that a recession is necessarily in the near future. In fact, the ratio usually peaks in excess of a year before a recession and typically rolls over by the time the recession starts. Last Thursday's reading showed no signs of a reversal; rising to a cycle high of 1.0662.




Another way of looking at this indicator is on a year-over-year basis. This tells much of the same story. Months or even years before a recession begins, the reading peaks then begins to decline. Right before a recession, it has never been on the rise.




August's report came in at 6.41%, which is the second-highest level since July 2014. Since 1980, the earliest a recession came following a period where the y/y change in leading indicators was above 5% was 24 months. The average amount of time that elapsed from the last 5% or more reading to the earliest stages of a recession was 35 months. No matter which way you cut it, the Leading Indicators do not show signs of a slowing economy.

# New S&P 500 Sector Weightings – What You Need to Know

Sep 24, 2018

The new GICS sector re-classifications finally took place today, and below are the details.

Sector classifications for public companies are determined by the Global Industry Classification Standard (GICS), which is maintained by S&P and MSCI.

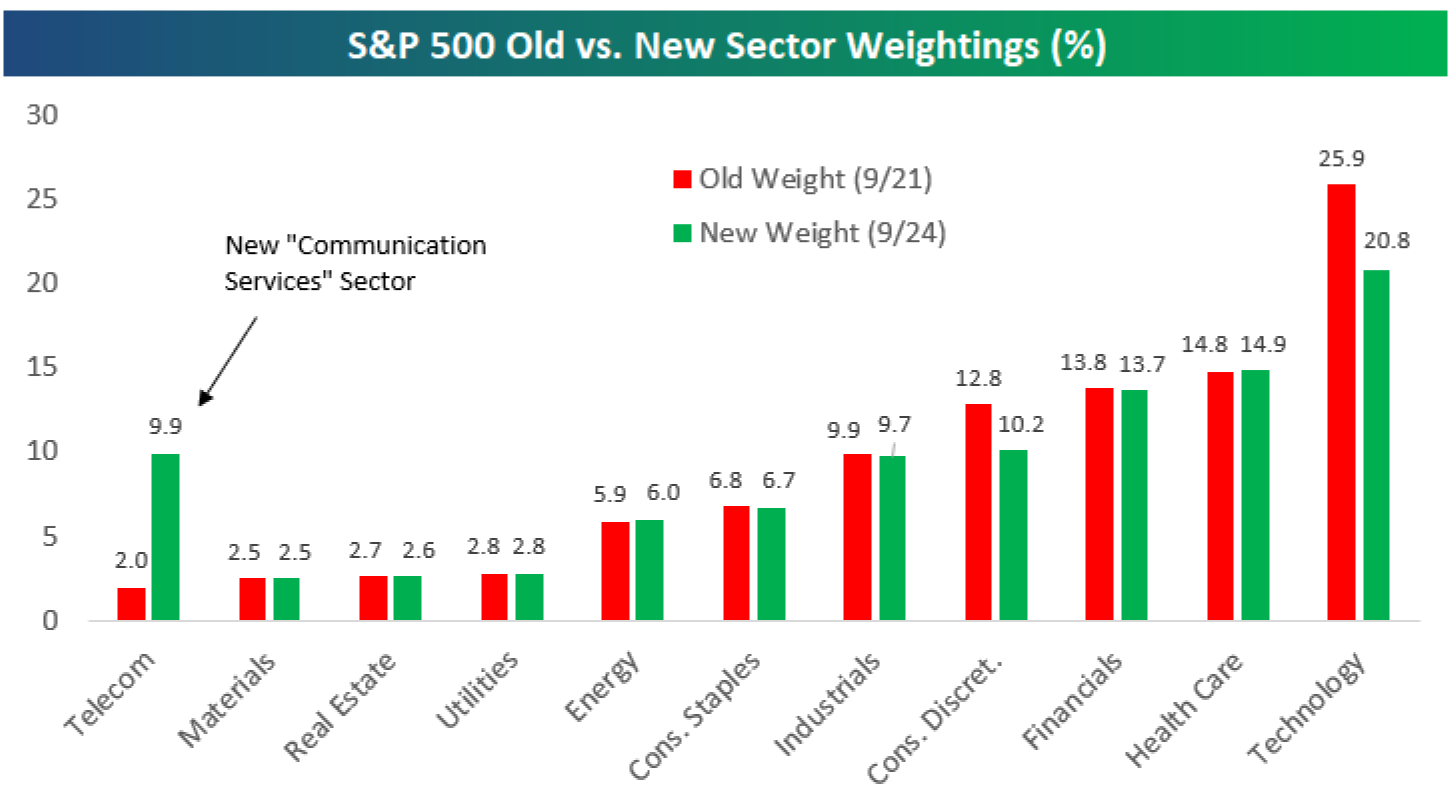
To the right is a table showing S&P 500 sectors with both their new weightings and old weightings in the index. We also include the ETF that investors can use to gain exposure to each sector. As shown, the old Telecommunication Services sector is no more, and the new sector is called the Communication Services sector (ETF=XLC). The 3 Telecom stocks that made up just 1.98% of the S&P 500 as of last Friday are now part of the new Communication Services sector, which has a weighting of 9.93%. The only other sectors that are affected are Technology and Consumer Discretionary. Due to re-classifications, Technology's weighting drops by 5.1 percentage points down to 20.84, while Consumer Discretionary's weighting drops 2.68 percentage points down to 10.16%.

**New S&P 500 Sectors**

| Sector | Wgt % on 9/24 | Wgt % on 9/21 | Change | ETF |
|---|---|---|---|---|
| Comm. Svcs* | 9.93 | 1.98 | 7.94 | XLC |
| Cons. Discret. | 10.16 | 12.84 | -2.68 | XLY |
| Cons. Staples | 6.74 | 6.83 | -0.09 | XLP |
| Energy | 6.02 | 5.89 | 0.13 | XLE |
| Financials | 13.71 | 13.84 | -0.12 | XLF |
| Health Care | 14.90 | 14.82 | 0.08 | XLV |
| Industrials | 9.73 | 9.88 | -0.15 | XLI |
| Materials | 2.50 | 2.53 | -0.02 | XLB |
| Real Estate | 2.65 | 2.66 | -0.02 | XLRE |
| Technology | 20.84 | 25.94 | -5.10 | XLK |
| Utilities | 2.82 | 2.80 | 0.02 | XLU |
| **S&P 500** | **100.00** | **100.00** | 0.00 | **SPY** |

**Formerly the Telecommunication Services sector*

Below we chart the data in the table above:




In terms of size, the new S&P 500 Communication Services sector has a total market cap of $2.69 trillion, which is $2.2 trillion more than the old Telecommunication Services sector's market cap.

The Consumer Discretionary sector now has a market cap of $2.76 trillion, which is down roughly $736 billion from where it stood last Friday. The Technology sector now has a market cap $5.3 trillion, which is down $1.46 trillion.

Below are the 23 S&P 500 companies that saw sector re-classifications. The main stocks shifting from Consumer Discretionary into Communication Services are Disney (DIS), Netflix (NFLX), and Comcast (CMCSA). Others making the same shift include Charter (CHTR), Twenty-First Century Fox (FOXA), CBS, Viacom (VIAB), News Corp (NWSA), and TripAdvisor (TRIP). Six companies are shifting from Technology into Communication Services — Alphabet (GOOGL), Facebook (FB), Activision Blizzard (ATVI), Electronic Arts (EA), Twitter (TWTR), and Take-Two

**S&P 500 Sector Market Cap Changes on 9/24/18**

| Sector | New Market Cap | Old Market Cap | Change | ETF |
|---|---|---|---|---|
| Comm. Svcs* | $2,688,926,014,589 | $492,433,526,502 | $2,196,492,488,087 | XLC |
| Cons. Discret. | $2,759,436,427,419 | $3,495,525,157,229 | -$736,088,729,810 | XLY |
| Cons. Staples | $1,960,302,959,377 | $1,960,302,959,377 | $0 | XLP |
| Energy | $1,521,632,136,350 | $1,521,632,136,350 | $0 | XLE |
| Financials | $3,642,394,828,864 | $3,642,394,828,864 | $0 | XLF |
| Health Care | $3,747,455,607,288 | $3,747,455,607,288 | $0 | XLV |
| Industrials | $2,513,800,147,929 | $2,513,800,147,929 | $0 | XLI |
| Materials | $636,364,892,336 | $636,364,892,336 | $0 | XLB |
| Real Estate | $661,511,924,710 | $661,511,924,710 | $0 | XLRE |
| Technology | $5,324,411,877,689 | $6,784,815,635,965 | -$1,460,403,758,277 | XLK |
| Utilities | $694,591,411,363 | $694,591,411,363 | $0 | XLU |
| **Total** | **$26,150,828,227,913** | **$26,150,828,227,913** | **$0** | SPY |

**Formerly the Telecommunication Services sector*

**S&P 500 Sector Changes on 9/24/18**

| Ticker | Name | New Sector | Old Sector | Price | Market Cap | YTD % Chg |
|---|---|---|---|---|---|---|
| DIS | Walt Disney | Comm. Svcs | Cons. Discret. | 112.45 | $167,270,174,772 | 4.61 |
| NFLX | Netflix Inc | Comm. Svcs | Cons. Discret. | 372.00 | $161,881,327,484 | 93.58 |
| CMCSA | Comcast Corp | Comm. Svcs | Cons. Discret. | 35.19 | $161,123,687,379 | -12.23 |
| CHTR | Charter Comm. | Comm. Svcs | Cons. Discret. | 327.17 | $84,380,405,720 | -2.53 |
| FOXA | Twenty-First Century Fox | Comm. Svcs | Cons. Discret. | 44.97 | $83,033,332,649 | 30.23 |
| DISCA | Discovery Inc | Comm. Svcs | Cons. Discret. | 31.86 | $21,452,854,884 | 42.54 |
| CBS | CBS Corp | Comm. Svcs | Cons. Discret. | 56.52 | $21,264,628,311 | -4.17 |
| DISH | DISH Network | Comm. Svcs | Cons. Discret. | 35.61 | $16,652,930,642 | -25.40 |
| OMC | Omnicom Group Inc | Comm. Svcs | Cons. Discret. | 70.25 | $15,764,429,977 | -3.47 |
| VIAB | Viacom Inc | Comm. Svcs | Cons. Discret. | 32.45 | $13,189,790,661 | 5.19 |
| IPG | Interpublic Group | Comm. Svcs | Cons. Discret. | 23.13 | $8,873,118,910 | 14.68 |
| NWSA | News Corp | Comm. Svcs | Cons. Discret. | 12.74 | $7,529,476,859 | -21.41 |
| TRIP | TripAdvisor Inc | Comm. Svcs | Cons. Discret. | 50.87 | $6,995,654,712 | 47.53 |
| GOOGL | Alphabet | Comm. Svcs | Technology | 1180.11 | $818,330,452,211 | 12.03 |
| FB | Facebook Inc | Comm. Svcs | Technology | 164.83 | $475,582,658,334 | -6.65 |
| ATVI | Activision Blizzard | Comm. Svcs | Technology | 80.32 | $61,267,154,051 | 26.93 |
| EA | Electronic Arts | Comm. Svcs | Technology | 114.52 | $34,904,738,953 | 8.99 |
| EBAY | eBay Inc | Cons. Discret. | Technology | 33.66 | $33,323,083,150 | -10.77 |
| TWTR | Twitter Inc | Comm. Svcs | Technology | 28.60 | $21,674,393,569 | 19.12 |
| TTWO | Take-Two Interactive | Comm. Svcs | Technology | 134.77 | $15,321,278,008 | 22.68 |
| T | AT&T Inc | Comm. Svcs | Telecom | 33.87 | $246,036,560,000 | -12.86 |
| VZ | Verizon Comm. | Comm. Svcs | Telecom | 53.64 | $221,678,345,262 | 1.34 |
| CTL | CenturyLink | Comm. Svcs | Telecom | 22.87 | $24,718,621,240 | 37.23 |

Interactive (TTWO). One Tech stock — eBay — is shifting into Consumer Discretionary (joining Amazon.com). Finally, AT&T (T), Verizon (VZ), and CenturyLink (CTL) all shift from the old Telecom sector into Communication Services.

## Follow-ups

As part of our effort to keep clients focused on Capital Preservation apprised of this Market Neutral OEF:

## QMNIX

As for AQR's title, we had to look it up: "in Norse mythology, the final destruction of the gods in a great battle against the forces of evil, after which a new world will arise". Fortunately for Investment Advisors, human sacrifice to appease the gods is frowned upon these days.

ALTERNATIVE INVESTING

# Liquid Alt Ragnarök?

September 7, 2018 - Cliff Asness

This is only the teaser. The real essay is admittedly quite the lengthy tome. It's ok to just read this quick summary, that's what it's here for. But, I do hope you give the whole thing a go. For those looking for a middle-ground, there is also a "medium" version longer than this teaser, but more manageable than the full opus.

If you can find diversifying, positive expected return liquid alts then you can materially improve a portfolio. I make no claims that this is an easy thing to do, or that the entire universe labeled "liquid alts" is, in aggregate, delivering that. But I believe the bar is not as high as many think. You don't need a strategy that never loses money to add value to your portfolio. Liquid, sometimes well-known strategies, with attractive but realistic risk-adjusted returns, which can be offered broadly enough to move the dial for many investors, are likely more important than "magic" strategies that (over?) promise much more.

Recently, the quantitative factor-based liquid alts that we favor at AQR have had tough times. Every time any of our strategies go through tough periods, we take a step back and consider specific hypotheses as to whether the recent returns are a harbinger of the future. Has the world changed such that these strategies are now "broken"? Are they too crowded or costlier to trade now versus the past? If the strategies pass all tests we can come up with, as they do today, we then rely on very long-term evidence across many asset classes and geographies, and on the economic motivations behind why the ideas supporting our strategies should work. We consider this combination of evidence and economic intuition an overwhelmingly strong case but not one inviolate to critical examination on occasion.

We acknowledge and, speaking even for myself, suffer from many of the difficulties that come with sticking with such strategies through tough times. Of course, this difficulty is a big part of why we think the strategies work to begin with and are sustainable going forward. If sticking with them were easy, the threat of them being "arbitraged away" would indeed be much greater, and nobody would take the other side.

As tempting as it may be, we do not call for a quick miracle bounce-back. But we do believe the case that adding some specific liquid alts, ones that are based on a gigantic amount of evidence and economic common sense and that are truly “alt” (meaning low correlation to traditional assets), remains as strong as ever, especially as compared to the current, quite expensive levels of traditional stock and bond markets.

We’ve seen this movie before, and it had a happy ending.

OK, that’s the short version, now dive in!

As part of "Strategic Financial Associates' Turn (Is Variable Life Insurance a Red Flag?) - 5/13/18" we shared "For the average person, the odds are poor that permanent life insurance will be a good investment compared with buying term and investing the difference." From the front page of September 20, 2018's WSJ:

# Insurance Policies Backfire On Retirees

## Falling interest rates doomed universal life, shredding a safety net

By Leslie Scism

A popular insurance product of the 1980s and 1990s has come back to bite many older Americans.

Universal life was a sensation when it premiered, and for some years it worked as advertised. It included both insurance and a savings account that earns income to help pay future costs and keep the premium the same.

That was when interest rates were in the high single digits or above. Today, rates are completing a decade at historically low levels, crimping the savings accounts. Meanwhile, the aging of the earliest customers into their 70s, 80s and even 90s has driven the yearly cost of insuring their lives much higher.

The result is a flood of unexpectedly steep life-insurance bills that is fraying a vital safety net. Some find they owe thousands of dollars a year to keep modest policies in effect. People with million-dollar policies can owe tens of thousands annually. Some retirees are dropping policies on which they paid premiums for decades. ...

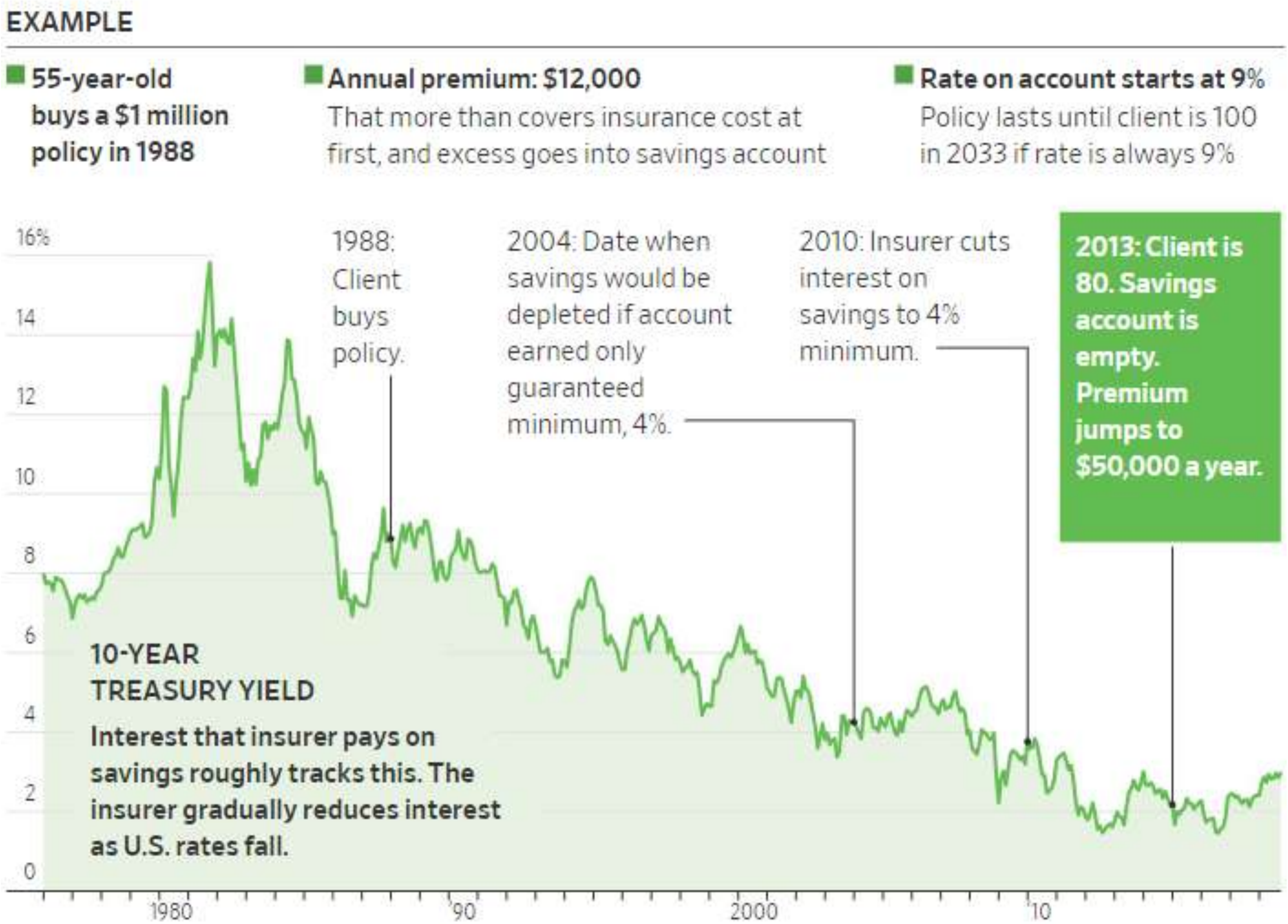
John Resnick, co-author of an American Bar Association book on life insurance, said of hundreds of older policies he has reviewed over a decade, “easily 90% or more actually were in trouble or soon to be in trouble.” Many people “are sitting on a ticking time bomb, and most probably aren’t aware of it,” he said.

Universal life is among the reasons Americans are approaching retirement in the worst shape in decades. The insurance policy type emerged in an era nearly four decades ago when the Federal Reserve was fighting inflation with high interest rates. Some financial advisers suggested people forgo traditional “whole life” insurance and buy less-expensive policies that covered just a limited term, investing what they saved in the mutual funds and money-market funds then proliferating. Insurance companies embraced this mantra of “buy term and invest the difference” by inventing a new product.

With universal life, the customer buys a one-year term-insurance policy and renews it annually. In the early years, the premium the customer pays is a good deal more than the actual cost of the insurance. The excess goes into a tax-deferred savings account.

## How Universal Life Insurance Can Trip Up a Policyholder

Clients buy with the expectation a policy's savings account will grow enough to help cover term-insurance costs as they age, keeping the premium level. This doesn't work if interest rates turn out lower than projected. Many don't realize starting rate isn't guaranteed for life of policy.




Sources: John and Billie Resnick, the Resnick Group; Thomson Reuters (yield)

The policies are designed so the gains in the savings account, which the industry typically calls a "cash-value" account, offset part of the cost of renewing the term insurance each year.

Much depends on what interest rate the account is earning. When these policies first were sold, U.S. interest rates were unusually high, and insurers often illustrated the policies to potential customers using a scenario of continuous 10% to 13% rates.

Companies typically showed worst-case scenarios, too. But with high rates common, the worst-case scenarios often got short shrift.

The interest projections were proving unrealistic by the mid-1990s, and especially so after the 2008 financial crisis depressed rates. Although many policies didn't allow the savings-account return to fall below 4% or 5%, that wasn't enough for early customers. The cost of a year of term insurance soars once people reach their late 70s.

Compounding the problem, universal life offers flexibility that is alluring but dangerous. Within reason, customers plan their own monthly or annual premium payment. They can set it low, counting on high interest income in their savings account to keep the policy financially sound.

Customers also can choose to pay less than their planned premium sometimes if money is tight. Or they can skip a payment altogether. And they can borrow against their savings account.

Any such move, of course, will spell skimpier earnings in the account. It is widely accepted that not all customers—or even all insurance agents—fully understood years ago how borrowing or skipping payments could undermine a universal-life policy.

Clients buy with the expectation a policy's savings account will grow enough to help cover term-insurance costs as they age, keeping the premium level. This doesn't work if interest rates turn out lower than projected. Many don't realize starting rate isn't guaranteed for life of policy.

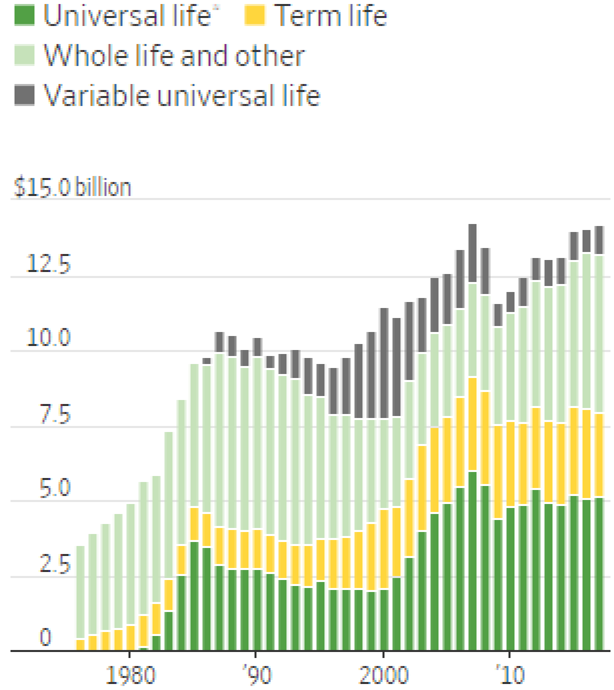
Defending their sales, insurers say they have paid out more than $150 billion on universal-life policies, and some owners received value from their policies by borrowing from them. Insurers stress that materials given to customers say only a minimum interest rate is guaranteed; higher rates used in sales pitches are hypothetical.

Insurers send customers annual statements showing the change in the value of their savings account and what it has cost to renew their term insurance. Some companies seek to identify problematic older policies, sending customers extra communications to be sure they understand their situation. ...

## A New Type of Insurance

Universal life was initially a hit, but the original version lost favor as policies' savings vehicles earned less interest than projected. Varieties called guaranteed and indexed universal life were created later and became big sellers. Another category, variable universal life, invests clients' premiums in stock and bond funds.

**Sales of new individual policies, by premium volume**




*Includes guaranteed and indexed UL

Source: Limra

In the early years of universal life, buyers often were businesspeople and other professionals who found the tax-deferred interest feature attractive. The insurance industry's reputation for conservative products helped allay skepticism. By 1985, universal life was generating 38% of the industry's premiums for individual life policies, according to research firm Limra. Americans bought two million to three million universal-life policies a year in the 1980s and early 1990s. ...

Industrywide, some customers angrily canceled their policies. Others took a shame-on-me attitude for not having read the details. Some began voluntarily paying larger premiums to put the policies on firmer financial footing.

Lawsuits arose, and from the mid-1990s to early 2000s plaintiffs' lawyers reached settlements over allegedly deceptive sales practices, such as promising the savings buildup would eliminate the need to pay premiums at all in a decade or so. State regulators tightened rules on how insurers could illustrate the policies, including requiring them to cite interest rates that could be justified for the long haul.

The industry responded by offering a new wrinkle: guaranteed universal life, which had a fixed premium designed to ensure lifetime coverage if paid on time. Many early universal-life policyholders swapped into this.

The disappointed early buyers of universal life included people in the industry—a gauge of how poorly the policies often were understood. ...

The tumble in interest rates didn't affect just customers—it also dinged insurers' profits. As corporate-bond yields fell below 5% in recent years, insurers earned less from investing premiums, yet still had to pay guaranteed minimums of around 4% on universal-life savings accounts.

With future profits expected to be hurt by low rates, at least a half-dozen insurers have invoked policy provisions that they say allow them to raise the rates used to calculate the annual cost of customers' term insurance, according to ITM TwentyFirst, which provides policy-management services.

This means some customers see costs rising not simply because they are a year older, or because their savings account didn't grow as planned, but because their insurer has changed its price formula. As a result, even some customers who kept their policies well funded are being hit with unexpectedly higher costs. ...

Such increases are "causing more life-insurance policies to expire even quicker than before" as customers who can't afford them drop their policies and hand insurers "windfall profits," said Henry Montag, a principal with The TOLI Center East in Melville, N.Y., which evaluates policies held in trusts. ...

We have repeatedly written on the Brokerage industry's now successful efforts to keep from being forced to adopt the Fiduciary standard that HCM has with its clients. From September 10, 2018's WSJ:

# The Fiduciary Rule Is Dead.

## What's an Investor to Do Now?

With regulations in flux, it's a confusing time for those who work with investment professionals.

BY LISA BEILFUSS

It is a tricky time to be working with an investment professional.

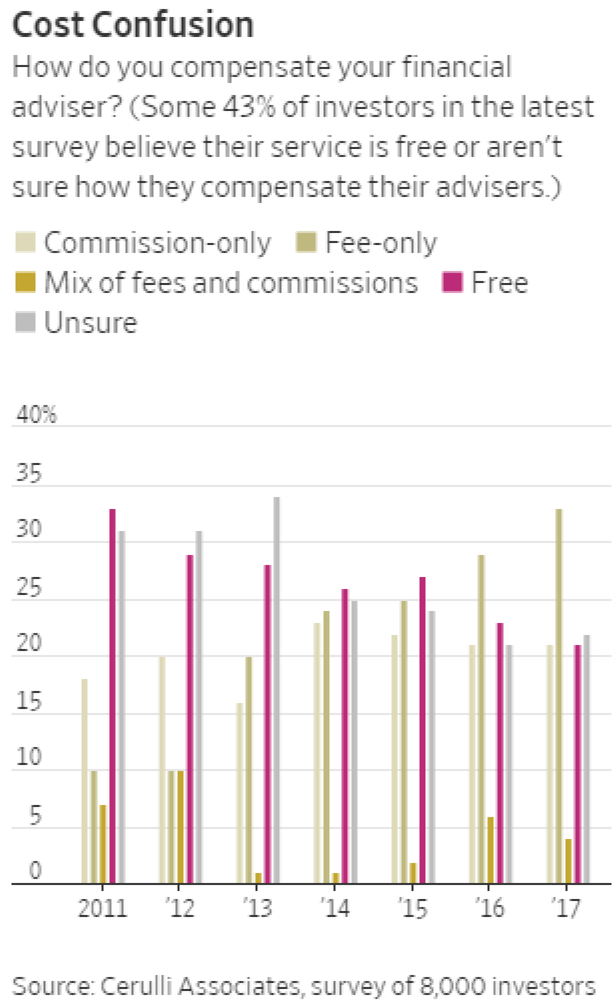
Regulation is in flux, and different types of professionals are held to different standards when it comes to giving advice and recommending products. So, it can be hard to know exactly what you're paying for.

Muddying the waters, a U.S. Circuit Court in June threw out the Labor Department's fiduciary rule, an Obama-era regulation that sought to curb conflicts of interest in financial advice that the Obama administration said cost American families $17 billion a year and a percentage point in annual returns.

The decision was a final blow to a rule that the financial-services industry fought, saying it would make advice more costly, and that the Trump administration had put under review for revision or repeal.

The Securities and Exchange Commission, meanwhile, has been working on its own investor-protection measure. The agency's version may wind up replacing the fiduciary rule, though it is shaping up to be less restrictive for brokers, and consumer advocates say that it would do little to raise the standard of care that is currently required.

Here are a few things investors should know as they navigate their financial relationships.




**Names can be crucial**

Financial pros can go by a number of titles: There is wealth manager, financial planner, broker, financial adviser—as well as "advisor" with an "o"—and more. The difference is sometimes semantics, but it is often much more.

For one, financial advisers (like HCM), regulated by the SEC, have for decades been held to a fiduciary standard, meaning they have to put clients' interests before their own. The requirement traces back to the stock-market crash of 1929 and subsequent Depression, which Congress in part blamed on abuses in the securities industry.

Brokers are regulated by the Financial Industry Regulatory Authority, or Finra, the securities industry's self-regulatory body. They must provide what the agency describes as "suitable" investment advice—short of the fiduciary care required of their adviser counterparts.

Where things get tricky is that some financial professionals are dually registered, and some have professional designations that carry requirements trumping the standards required by regulators. For example, a broker who's also a certified financial planner has to serve as a fiduciary, when doing financial planning, to maintain the designation.

The best way to know whether your adviser is a registered investment adviser, broker or both is to search BrokerCheck, a database maintained by Finra. An individual's profile will denote his or her title and regulatory overseer.

But industry professionals and consumer advocates say investors should confirm any information with their adviser. Even better, the experts say: Investors should ask a financial professional to put in writing whether he or she is a fiduciary in their particular relationship.

**Location matters**

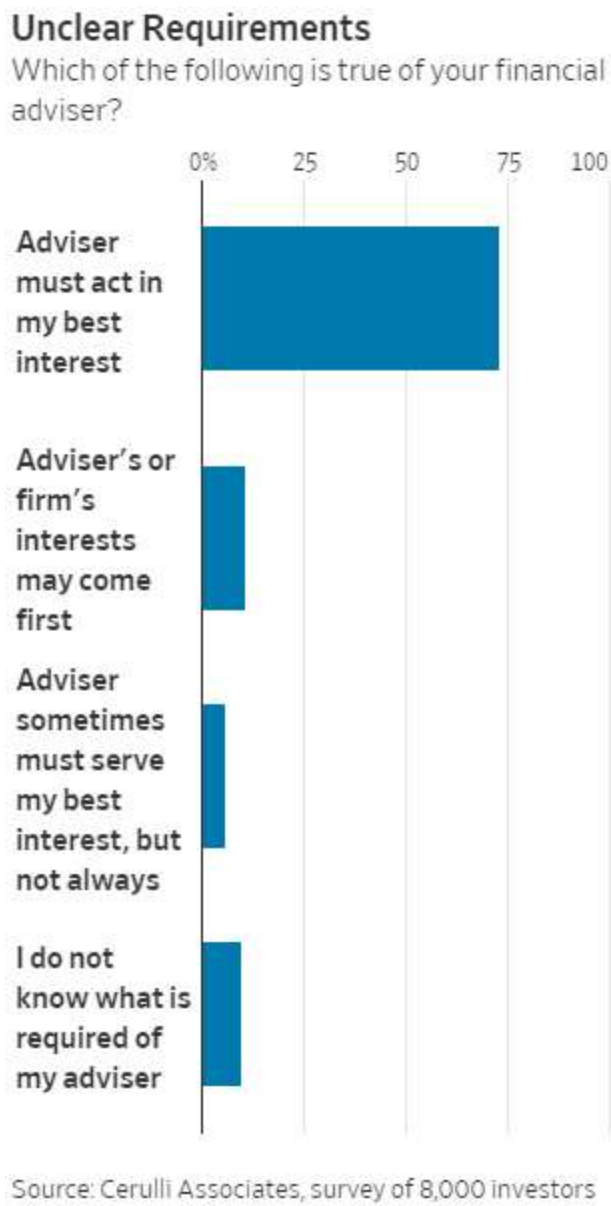
When it comes to which standard of care is required of an investment professional, where he or she works matters. Advisers who are held to a fiduciary standard must choose products that are in the best interest of the client. But what products an adviser can pick varies from firm to firm.

For example, at stand-alone investment advisories (like HCM) — those that aren't connected to a bank or brokerage — advisers typically have access to the universe of investment products, including the cheapest index funds. Some brokers at firms connected to banks do too, but not always. Some firms have house funds and lucrative partnerships with fund companies, and their brokers have more limited menus of investment options from which to choose.

To understand any constraints and incentives an investment adviser might have in recommending products, consumer advocates suggest checking firms' securities disclosures. Advisory firms regulated by the SEC have to spell out conflicts of interests in those.

With the Labor Department's fiduciary rule dead, brokers don't have to disclose conflicts the way they did under the rule. Observers say potential rules from the SEC requiring that brokers serve clients' best interest may emphasize disclosing conflicts over mitigating them.

For now, the best way to understand conflicts and constraints is to ask your broker, and to have him or her explain product selections. ...




**Fees don't necessarily mean 'best interest'**

Many investment advisers, already required to act as fiduciaries, charge investors a percentage of their assets under management. Doing so eliminates commissions, which can cause conflicts of interest by pushing an adviser to recommend one product over another to the detriment of the client.

After the fiduciary rule was unveiled—and then went into temporary effect—many brokerages accelerated moving clients toward fee-paying accounts from commission accounts. They said it made compliance with the new regulation easier, because charging commissions under the fiduciary rule would require disclosures and contracts that executives said were too onerous and costly.

Fee accounts are regulated by the SEC, meaning once you're in one, the adviser needs to act as a fiduciary. But that doesn't mean being put into one was actually in your best interest.

A fee account "doesn't keep your fees from being way higher than they should be," says Barbara Roper, director of investor protection at the Consumer Federation of America.

"The fee-based accounts at brokerage firms still incorporate the conflicts of the broker-dealer model," Ms. Roper says, such as revenue derived from fund companies, proprietary products and incentives meant to encourage broker behavior. ...

# Positions

**MGY** - Added 1% positions for 2 clients (the 1st on 9/14 @ 14.52, and the 2nd on 9/18 @ 14.25) that didn't already hold WRD for Eagle Ford basin exposure. Rare to see heavy Insider Buying on the way.


Insider Buying:

| Trade Date↑ | No. Part | Participants | Net Sell (Shares) | Net Buy (Shares) |
|---|---|---|---|---|
| 09/12/2018 | 1 | WALKER JOHN B | | 50,000 |
| 09/11/2018 | 2 | WALKER JOHN B, CHAZEN ST... | | 61,805 |
| 09/10/2018 | 2 | WALKER JOHN B, CHAZEN ST... | | 70,047 |
| 09/07/2018 | 2 | CHAZEN STEPHEN I, STAVRO... | | 41,031 |
| 09/04/2018 | 1 | ENERVEST ENERGY INS | | 1.244MLN |
| 08/31/2018 | 2 | ACOSTA ARCILIA C, CHASE V... | | 5,100 |
| 08/30/2018 | 1 | ACOSTA ARCILIA C | | 14,350 |

From Z4 Energy Research, 1 of the 2 analysts we have followed for years, on 9/13: "Increased our position by 40% in this Eagle Ford player at $14.00. High margins, low debt, significant underspend, very recent significant insider open market additions, and coming increased sellside coverage (which should be favorable in front of the 3Q198 report) encouraged us to make the addition."

From InsiderInsights Sep. 17th issue:

We’re already overweight energy on our Recommended List, and are happy to become more so. We believe the investment theme supporting energy independence for the U.S. is a long-term one, and the recent global rise in oil prices adds more tailwind to the group’s prospects.

**Magnolia Oil & Gas** is an oil and gas exploration and production company, operating in South Texas in the core of the Eagle Ford. Magnolia is a recent incarnation, germinated from TPG Pace Energy Holdings acquiring numerous E&P assets under the direction of Chairman Steve Chazen, who is the ex-CEO of Occidental Petroleum (OXY).

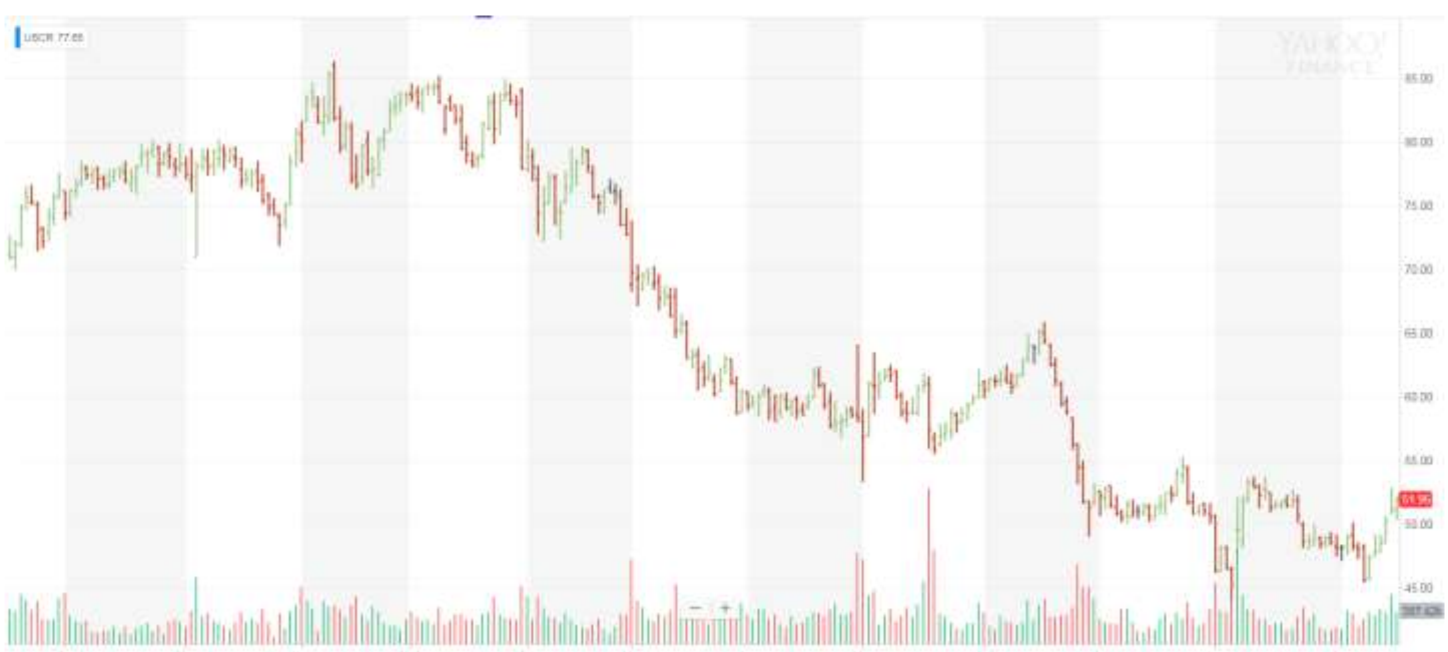
Magnolia has hit the ground running, raising production guidance in its most recent quarter and with a stock price that is already up over 30% since the beginning of June.

MGY sports EPS estimates that—even at their low end—are calling for $0.93 this year, increasing to $1.12 in 2019. MGY hardly looks pricey on those low-end numbers, and all three analysts following MGY still rate it a Buy after its recent surge. Their low-end price target on MGY is $18, with more optimistic scenarios calculating $21 in fair value.

Strategically, Mr. Chazen’s new vehicle has consciously avoided exploring in the more crowded Permian Basin of West Texas. In an August 29 Reuters’ article, Chazen pointed out that “New entrants in the Permian have a less-privileged position because they have to pay a lot to get there. The Eagle Ford and Austin Chalk are less popular, but the acreage costs are more reasonable."

Insiders have also indicated a belief that MGY remains far too reasonably priced despite its recent outperformance. ...

**USCR** - 2% positions in this IVA System pick were purchased on 9/18 @ 50.70 for 4 clients.



Insider Buying:

| Trade Date↑ | No. Part | Participants | Net Sell (Shares) | Net Buy (Shares) |
|---|---|---|---|---|
| 09/06/2018 | 1 | CELLAR KURT M | | 5,000 |
| 09/04/2018 | 1 | CELLAR KURT M | | 2,000 |
| 08/22/2018 | 1 | ROSSI THEODORE P | | 200 |
| 08/20/2018 | 1 | LUNDIN MICHAEL D | | 250 |

From InsiderInsights Sep. 17th issue:

**U.S. Concrete** makes ready-mixed concrete, aggregates, and concrete-related products for the construction industry in the United States and Canada. It operates through two segments, Ready-Mixed Concrete and Aggregate Products. Besides simply selling product, however, U.S. Concrete is a "roll-up" play, with all the risks and rewards involved in the strategy of growing by acquisition while consolidating a highly fragmented industry.

Following its numerous strategic and bolt-on acquisitions in recent years, the pros of U.S. Concrete's roll-up strategy were clearly illustrated by revenues that increased nearly 40% since 2015. Operating income stayed relatively flat, however, and EPS has been lumpy, with its latest Q2 bottom line of $1.08 missing expectations by 21 cents.

The reasons for the EPS miss were explained on the Q2 conference call as resulting from inflationary pressures in raw materials, labor, and fuel needed to deliver its products. At the same time, "the regional mix for the second quarter of 2018 was more heavily weighted toward our lower-priced Texas markets than in the prior-year quarter, resulting in overall lower average sales price". Management insisted, however that the issue was only producing "a temporary contraction in our margins".

Looking forward, CEO William Sandbrook pointed to the "favorable underlying demand environment in each of our markets" and a 10% year-over-year increase in his company's backlog to justify his full-year guidance for another 16% increase in adjusted EBITDA in 2018, to a range of $215 million to $232 million. And, citing the typical "roll-up" strategy playbook, he further expressed that "fully synergizing our past acquisitions will continue to be a key component of our strategic plans".

The roll-up playbook has its detractors, however, who can point to any number of previous industry roll-up scenarios that went bad after acquisitions were over paid for, and produced more distractions than synergies. So a very strident critique of USCR by a prominent short seller earlier this year pointing out both typical and company specific reasons to be bearish on the stock wasn't too surprising to see. The criticisms should also be kept in mind in case they seem to be playing out in future quarterly reports from USCR.

But the sell-side isn't completely full of shills and lacking resources either, and six of the seven analysts following USCR rate this recent underperformer Buy or better, with the low-end price target on the stock being $68. The mean and upper price targets are $77 and $95, respectively, which seems possible if the average EPS estimates for 30% growth this year, to $3.87, and over 35% growth in 2019, to $5.33, plays out.

Four insiders have purchased $531k worth of USCR at an average price of $49.89 since the company released solid Q2 financial results early August that overshadowed the accusations of short sellers—for a time, at least.

The most significant activity in the cluster was by Director Kurt Mathew Cellar, who increased his holdings by nearly 20% with his 9,000 share purchases over the past month. His acquisitions further represented a bullish reversal of sentiment, after he was last seen smartly selling USCR last December when the shares still fetched over $80.

It was also Cellar's last burst of buying early September, as USCR weakened again, that finally allowed U.S. Concrete's InsiderInsights Company Rating to strengthen over the thresholdof "Significantly Bullish" when the trades hit the SEC on September 10th.

In this present tug-of-war between short sellers (who have nearly 23% of USCR's float shorted) and bullish analysts and insiders on the other side, we're joining the latter. As always, however, it never pays to completely discount the risks that shorts highlight. Future quarterly results will be the dispassionate arbiter of who's right.