



The fourth quarter of 2018 turned out to be a bit of a rough ride for the market. Investors entered 2018 with high expectations on solid GDP growth and continued strong corporate earnings and sales. The story changed as the year saw four more rate hikes by the Federal Reserve, a ratcheting up of global trade war disputes and slowing global growth. All of the optimism we saw heading into 2018 ended in investor pessimism during the fourth quarter. In October, investors “threw in the towel” on the economy and moved into expensive recessionary or defensive style stocks (think utility companies). In general, these types of

stocks are low growth and expensive by Argent’s standards.

At Argent, we know the market can be fickle and investors feel the pull to own the type of stocks that are working in the moment. That is why we follow a disciplined, Changed BasedSM investment approach. We look for companies with favorable valuations that are undergoing a significant change that we believe will result in an acceleration in growth and earnings. A sound process helps us look past market volatility and transient periods of underperformance. While the fourth quarter saw investors pouring into expensive, recessionary stocks, we remained true to our investment process. Two companies in the Mid Cap portfolio that exhibit change with attractive valuations are Zebra Technologies and Advanced Auto Parts Inc.

Zebra Technologies creates software and mobile devices that assist in inventory management. Retailers, such as Sam’s Club are using Zebra products to help with their “drive thru” shopping service whereby stores allow you to shop on your phone and pick up your order in the store parking lot in as little as one hour. Zebra’s technology enables nearly perfect inventory management that allows retailers to offer this new service. This major change to shopping habits resulted in a 16% increase in Zebra’s earnings estimates for 2019 from \$10.10 when we purchased the stock in April, 2018 to \$11.68 currently.

Advanced Auto Parts, another Mid Cap holding, is a Virginia based retailer of automotive parts and accessories. We started to see a positive change occurring in Advanced Auto Parts in 2016 when the company hired a PepsiCo executive, Thomas Greco as its chief executive. Advanced Auto Parts was suffering from poor logistics management which was leading to lower margins than industry peers. Greco had a reputation for transforming supply chains at PepsiCo and we saw this new addition to leadership as a positive change for the company. Advanced Auto Parts is another company where the market is beginning to recognize the positive fundamentals of the business and resulted in earnings estimates for 2020 jumping from \$8.87 when we purchased the company in September to \$9.58 currently.

As always, we appreciate your interest in Argent Capital Management. We have four very successful equity strategies – Large Cap, Small Cap, Dividend Select and Mid Cap. We are very proud of them all, and if you have questions on any of these, or know others who might have an interest in our strategies and mailings, please call us.

Sincerely,

A handwritten signature in blue ink that reads "Kirk McDonald". The signature is fluid and cursive.

Kirk McDonald
Portfolio Manager & Senior Research Analyst – Quantitative