



There were no tricks in results for the market in October. Instead, a nice treat. Third-quarter earnings began and then kicked into high gear during the month. Revisions to 2019 earnings have been falling throughout the year, although consensus still calls for higher earnings as compared to 2018. Given the earning bump from the change in corporate taxes in 2018, up a little for 2019 is not too shabby. Perhaps because earnings revisions have been declining throughout the year, third-quarter results have been received positively, at least so far.

We have been arguing for some time that while the market as a whole is fairly valued and has seen a good gain this year, not all areas of the market have performed in kind. What has changed in the market of late is a re-focusing on valuation, put simply, how much should you pay for a dollar of earnings? As you know, the Large Cap strategy leans towards growth. At our core we look for companies that are undergoing change with the expectation that the successful realization of that change will drive growth rates higher. We believe positive change equals better growth. With that as a constant construct, we compare the potential improvement a company may realize from that change with what investors are willing to pay for that stock today. So valuation for Argent is as important as growth. We want both of those components in place in order to add a stock to our clients' portfolios. That is what drives the *selectivity* you see in every Argent strategy.

To be sure, we are willing to pay more for higher growth. We are not willing, however, to pay an undue premium for growth. We believe, up until recently, the market was demanding an undue premium for some of the leading growers in the market, the so-called momentum stocks. As an example, think of Amazon, a great on-line retailer to be sure, but trading at a 400% premium to the market. Instead, the Large Cap strategy opted for Target, a bricks

Cracks in Momentum Argent



Momentum stocks cooled off significantly bringing valuation and fundamentals back into focus

and mortar retailer, improving its store base and increasing its customer convenience, trading at a slight discount to the market. The chart shows the performance of momentum stocks. As you can see, the up and to the right direction of these stocks recently has been capped. Again, we believe this is because investors are being brought back to the fundamental components of investing, *growth and valuation*.

If this normalization in the market continues, we believe our strategies are well-positioned both for the near-term and for the next three to five years. We will get more information each day as third-quarter earnings continue to unfold.

Perhaps the markets no longer will trick investors into paying an undue premium for growth and we all will be treated to good results. We have four successful equity strategies – Large Cap, Small Cap, Dividend Select and Mid Cap. If you have questions on any of these options, please call us.

Sincerely,

Ken Crawford
Senior Portfolio Manager

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