Intrinsic Investors

The Month in Review

August Takeaways

- Stocks continued their winning ways in August with broad advances for all market caps (up 3-4%) and new highs being set on the S&P500 and NASDAQ.

- Traditionally, August plays host to the summer doldrums, as the Wall Street Masters of the Universe retreat to their beach houses for sand time, golf and clambakes. I'm guessing there was some "remote" work being done at the beach. And there's always a convenient helipad nearby for a quick flight into town!

- Rotation was mentioned in the July Review and it appears to be continuing as daily action alternately favors growth over value and vis-a-versa. There is also some evidence that investors are getting defensive, favoring consumer staples and health care stocks.

- While the economy and markets remain upbeat, we are keeping an eye on inflation, interest rates and the potential impact on housing and consumer spending.

- As earnings season wanes, we see trailing and forward earnings flattening. This is most likely seasonal, as analysts tend to pull their horns in going into the end of the year. It will be interesting to see if the new tax cuts have long enough legs to power earnings and stock prices into the fourth quarter

- The other bricks in the "wall of worry" for August include the continued trade war with China, trouble on the NAFTA front and new concerns over emerging markets currency stability. Turkey and Argentina are grabbing most of those headlines and will bear watching moving ahead.

- We can't sign off for the month without commenting on the yield curve. One analysis I read suggests that part of the reason this is happening is that corporate pensions are using Treasury Strips (discounted T-Notes) to fund pension obligations to take advantage of the old tax rate deductions. They drop from 35% to 21% on September 15th: and so that's 14% free money until then. Will the rate on the 10 year Note reverse course in the 4th Quarter? Stay tuned!