Gore Capital Management

Our only client is you.

Boy oh boy, the rollercoaster ride continues. At this point, it's more Blue Angels airshow acrobatics ride than mere pedestrian rollercoaster ride…. Or is it? Perhaps the most surprising thing about the recent news cycle is just how limited its impact has been on the stock market. Since June 30th, the end of the second quarter, the S&P 500 is up about 3% or about 100 points. We saw a 5-6% decline at the end of July that pulled us down from all-time highs and a small 2-3% dip at the beginning of October, but the general trend of "slow grind higher" has not been broken. The market is, yet again, at (or near) all-time highs and the "volatility index" (known as the VIX) is very close to its two-year low.

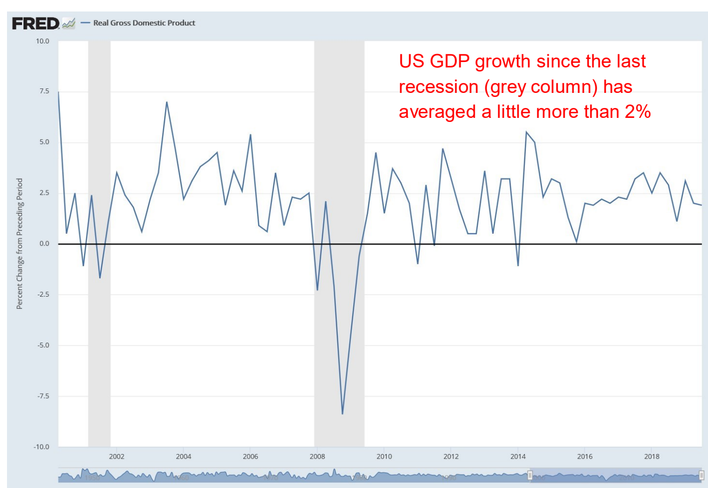
Earnings & the Economy

Why? Well, first and foremost, earnings and general economic conditions are good. Third quarter earnings season is now nearly finished and the results are better than expected. According to Factset, 60% of companies have surprised on top-line revenues and 75% have surprised on bottom-line earnings (both of those figures are, of course, positive surprises). Year over year, versus 3Q of 2018, revenue growth is slightly positive (+3.2% vs last year) but earnings turned negative (-2.4% vs last year) for the first time since early 2016. How can negative earnings be a good thing, you ask? Analysts have been expecting earnings to decline this quarter, but actual results are showing a smaller decline than expected. It should be noted that full-year earnings expectations are still positive (in other words, full calendar-year 2019 earnings are expected to be higher than last year).

Technology and communication services companies (the latter of which now includes the likes of Facebook and Google) continue to the lead the charge with the best revenue and earnings growth of all 11 S&P sectors. The energy sector brings up the rear. Consistent with the trend we've seen over the past few years, companies with more global exposure (those that sell more products to foreign customers) are struggling with lower revenue and earnings than their more domestically-focused peers. Two words: trade war. ([all data from Factset, 11/8/19])

Our favorite Raymond James analysts, the Equity & Portfolio Strategy Group, are expecting the market to stay range-bound until some of these big unknowns show signs of resolution. Today, they think the list of "cons" (trade war, Brexit, impeachment, election???) slightly outweighs the list of "pros" (jobs, earnings, GDP), and are recommending that investors hold tight rather than try to chase the recent run-up.

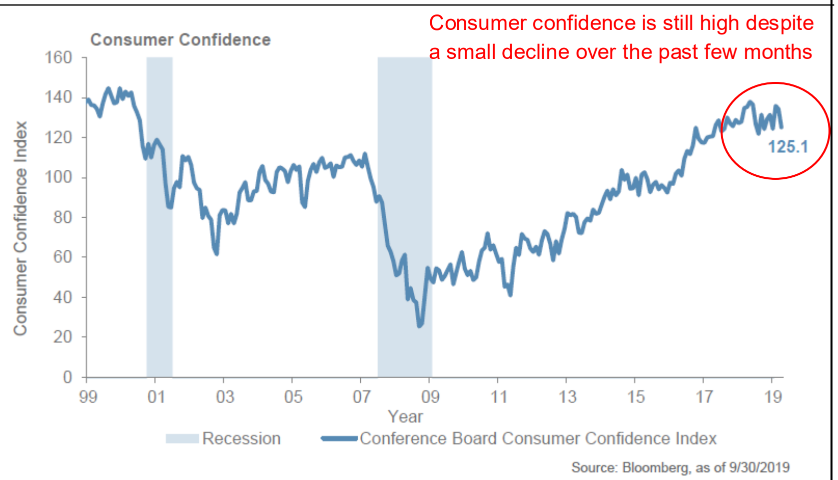
Looking at other major economic indicators, US GDP growth for the 3rd quarter of 2019 came in around 2%, in-line with the average over the past 10 years or so. Labor conditions are tight; job growth is steady and the unemployment rate is about as low as it can go. Consumer confidence remains reasonably high, with the Conference Board (the folks that put the consumer confidence index together) saying,



Market Statistics	3Q 2019	YTD (as of 10/31/19)	2018	3-Year Annl.	5-Year Annl.
S&P 500	1.55%	22.56%	-4.94%	12.71%	10.15%
Dow Jones Ind. Avg.	1.63%	17.51%	-4.13%	15.62%	11.46%
Russell 2000 (Small Cap)	-2.50%	16.80%	-11.35%	7.80%	7.75%
MSCI EAFE (Foreign)	-1.07%	16.86%	-13.79%	6.48%	3.27%
MSCI ACWI (Global)	-0.03%	19.38%	-9.41%	9.71%	6.65%
MSCI Emerg. Mkts. Equity	-4.25%	10.35%	-14.57%	5.97%	2.33%
Barclay's Aggregate Bond	2.27%	8.85%	0.01%	2.92%	3.38%
S&P GSCI Gold (Spot)	4.19%	18.22%	-2.14%	3.80%	3.98%

Source: Morningstar

"consumers [are] unlikely to curtail holiday spending," despite a small downtick over the past few months. As consumer spending represents more than 2/3rds of total US GDP, this is a good thing. All of that being said, it's difficult to imagine a scenario or catalyst which causes the economy to return to the 3%+ GDP growth figures we enjoyed in 2017-2018 in the near future. (Data from FRED, Conference Board, 11/14/19)



Politics

Do we even want to touch politics in this newsletter? The House of Representatives has voted in favor of formalizing the impeachment inquiry against President Trump, but it's important to remember that this is only the first step in a long process. The House must conduct a formal investigation and pass articles of impeachment specifically detailing the president's crimes before the Senate can conduct a trial. The timeframe is fluid but it's not unreasonable to expect this to last at least another 3-6 months.

Concurrently, the 2020 election cycle is picking up steam. The DNC seems to have their candidate list whittled down to two front-runners, Elizabeth Warren and Joe Biden, but several other candidates are still nipping at their heels (probably to secure VP spots). Further complicating things, former New York Mayor Michael Bloomberg has put his name on Democratic primary ballots in several states, hinting that he may be ready to launch a full-blown campaign of his own. At this point, it's just too soon to make any predictions about what may happen in the election next year. The only thing we can say with any certainty is that it's going to be a media circus, and we bet campaign ad spending will be through the roof.

Forecast

The more things change, the more they stay the same. To paraphrase legendary investor Sir John Templeton, "the investor who says 'this time is different'… has uttered among the four most costly words in the annals of investing." Wall Street, Corporate America, and Washington have given us countless reasons to be fearful, countless reasons for volatility to get worse before the end of this year and indeed into next year. But American resilience has a funny way of winning out over the long run.

At the same time, "fear of missing out (FOMO)" can be a different kind of motivator (equally, if not more, powerful than regular fear). We wouldn't be surprised to watch the market climb higher for the remainder of the year as investors try to chase the recent run-up and mutual fund managers try to boost their year-end results. However, FOMO tends to be accompanied by a heightened sensitivity to the catalysts that have caused the market to rise in the first place (the Federal Reserve's accommodative stance, potential trade deal, improvement in global economic conditions…). Any disruption to those catalysts will likely be met with a sharp reaction from market participants.

As always, we encourage you to re-evaluate your risk tolerance on an ongoing basis. Our success as investors does not hinge on whether the market goes up or down next year. It hinges on our ability to stick with a plan that makes us comfortable for the next 10, 20, even 30+ years. Are the stories in the news making you concerned? Call us, send us an email. Let's talk about it.

We wish you and your families a happy, warm, and safe holiday season. Peter, Ben & Keri

GCM's Top Holdings	1Q 2019	YTD (as of 10/31/19)	2018	3-Year Annl.	5-Year Annl.
PIMCO Income (PONPX)	-0.13%	6.05%	0.48%	5.18%	5.01%
FPA Crescent (FPACX)	-0.81%	14.32%	-7.43%	6.64%	5.14%
Litman Gregory Masters Alt (MASFX)	0.60%	6.85%	-2.08%	3.31%	3.01%
Vanguard Mega Cap Value (MGV)	1.08%	18.30%	-4.05%	11.80%	9.49%
First Eagle Overseas (SGOIX)	0.97%	14.88%	-9.99%	4.13%	4.31%
T Rowe Price Blue Chip Grwth (TRBCX)	-1.64%	21.14%	2.01%	18.16%	14.15%
Baird Aggregate Bond (BAGIX)	2.41%	9.50%	-0.30%	3.31%	3.73%

Source: Morningstar

Ben's Corner

Aside from "fiduciary," the financial industry's buzzword of the moment is "ESG investing." I've seen TV ads, read newspaper articles, and listened to interviews with ESG investors. But what is ESG? Earning Super Growth? Endive Salad Greens?

ESG stands for "environmental, social, governance," the three key tenants of sustainable investing. The terms "ESG" and "sustainable investing" are often used interchangeably, but the best I can gather, "ESG" represents the criteria while "sustainable investing" represents the philosophy and the implementation.

I've had conversations recently with a few clients on the subject of sustainable investing, and the idea seems to really stick with people as they learn more about it. Why wouldn't it stick? Sustainable investing is all about doing the right thing, or, more accurately, investing in companies that make doing the right thing a priority. On the contrary, are there really investors out there that say, "I want to exclusively own stock in companies that ruin the environment, lie to their shareholders, and treat employees like prisoners"? I hope not… but… probably.

So how does it work? There are a couple of ways investment managers go about selecting securities for their ESG portfolios:

At first, ESG investors used an exclusionary approach. They would create a set of negative criteria and then screen out any company involved in the sale, promotion, or manufacturing of those criteria elements. Guns/ammunition, cigarettes, casinos, and chemicals are popular screens, as are cosmetics (unfriendly to animals) and oil & gas companies. To those familiar with the idea of "sin stocks," this should sound very similar. The benefit of this method is that it's very cut-and-dry. You're either in or you're out. But that same benefit is also perhaps the greatest drawback. No company can be perfect. Making this analysis too black-and-white may severely limit the opportunity set of available investments.

As time has gone on and technology has allowed evaluation methods to be more complex, many ESG investors will now use what Raymond James calls "integration." This method combines traditional fundamental analysis (things like cash flows, profitability, market share, etc.) with ESG metrics like EPA regulatory violations, worker pay, shareholder voting opportunities, et cetera. Instead of flat-out eliminating companies because they're involved in something objectionable, the integration method scores and ranks companies based on those criteria. It's a balancing act between financial success and social commitment, allowing for quite a bit of customization to decide which particular metrics receive the greatest weights and are most important to a given portfolio manager's investors.

As people around the world become more conscious of their impact on their fellow man and on their planet, I think the ESG investment opportunity set will only grow. In fact, many of the largest ESG-friendly companies today are also the largest companies in the S&P 500 (think Amazon, Apple, Microsoft…), signaling that executives are catching on that their employees, customers, and shareholders care about these things.

For those who are interested in learning more, please reach out. Also, here's a link to JUST Capital, a 501(c)3 founded by several major investors and public figures with the goal of making the ESG investment process a little more transparent.

https://justcapital.com/

Market Movers	1Q 2019	YTD (as of 10/31/19)	2018	3-Year Annl.	5-Year Annl.
Alphabet (GOOGL)	12.78%	20.46%	-0.80%	14.95%	15.72%
Amazon (AMZN)	-8.33%	18.29%	28.43%	27.51%	40.03%
Apple (AAPL)	13.55%	59.14%	-5.12%	27.10%	18.58%
Chevron (CVX)	-3.74%	10.04%	-9.52%	8.66%	3.34%
General Electric (GE)	-14.76%	34.35%	-54.50%	-29.05%	-13.48%
JP Morgan Chase (JPM)	5.98%	31.35%	-6.40%	23.39%	16.37%
Microsoft (MSFT)	4.13%	42.51%	20.21%	35.61%	25.85%
Verizon (VZ)	6.71%	11.87%	10.70%	9.07%	7.54%

Source: Morningstar

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