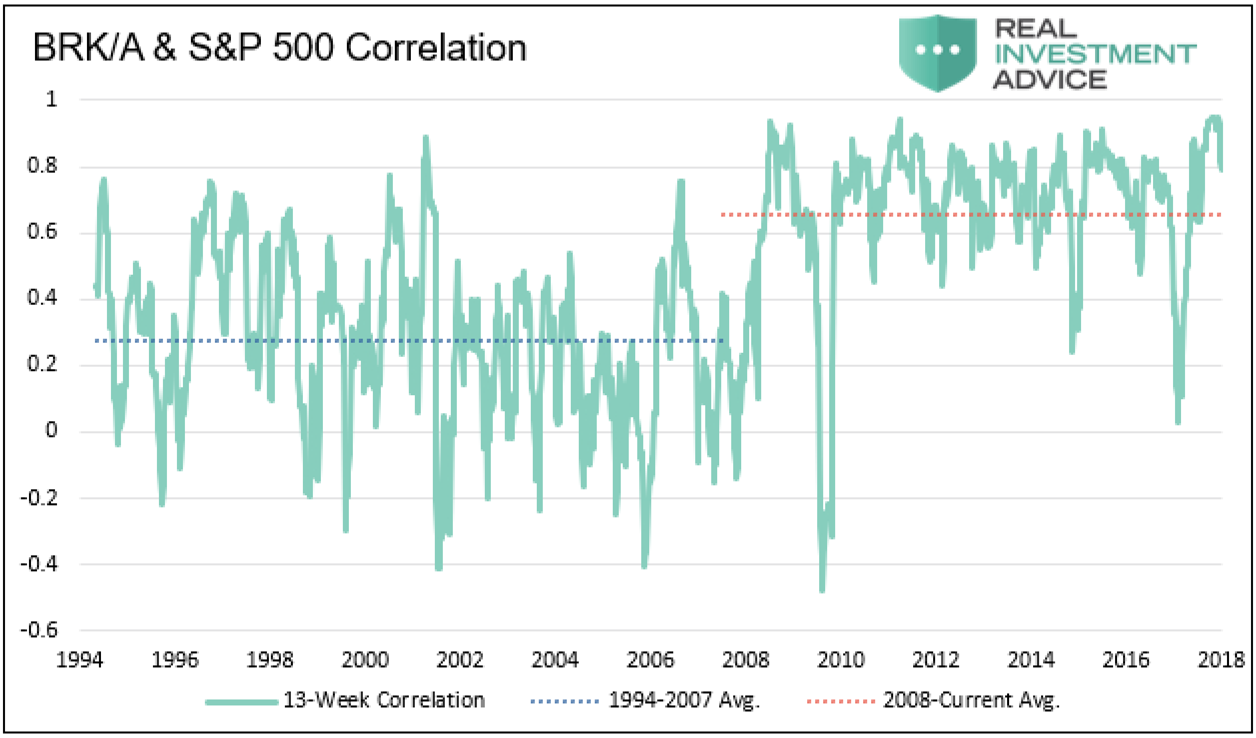
RIA Advice

Yesterday, I discussed the failure of tax cuts to "trickle down" as they have primarily been used for corporate share repurchases. As I was digging into the data, Doug Kass emailed me a quick note:

> *"Berkshire Hathaway, likely under the weight of an enormous cash horde and more scarce alternative investment opportunities, has announced that it is loosening the terms of its buyback policy. It is also a signpost that the company has matured and will only duplicate GDP-like growth."*

While the announcement set the shares of Berkshire (BRK/A) (BRK/B) surging higher yesterday, there is a much more important message that investors should be heeding. We recently delved into the performance of Berkshire as it has become the 10th-largest company in the world in terms of revenues. To wit:

"The graph below highlights this concern. It shows that 90-day rolling correlation of price



Both the sheer size of Berkshire, and the chart above, confirm Doug's comment that Berkshire is likely to only generate rates of growth equivalent to GDP going forward. So what's the message that Mr. Buffett is sending? Simple:

> *"Price is what you pay, value is what you get."*

Investing is about maximizing the return on invested dollars by buying something that is undervalued and selling it when it is overvalued. This is the point missed by those who promote *"buy and hold"* investing which is the same as *"buy at any price."* Corporations are, in many ways, held hostage by Wall Street and short term investors. An earnings miss can be disastrous to a companies stock price which can have severe consequences to stock option compensated executives and employees, shareholders and even bondholders. So, with pressure on companies to deploy excess cash, what are the options considering the *"beat the estimate"* game that must be played.

- **Hire Workers?** Employees are a high cost and have a direct impact on profitability. Companies hire as needed to meet excess demand. Demand has remained stable and increased at the rate of population growth which is also the rate of employment increases: (Read this)
- **Invest To Produce More Products?** Investments in future growth are accompanied by a negative short-term impact to profitability. Further, with rates rising the cost of borrowing for CapEx adds to the negative impact on current earnings.
- **Mergers & Acquisitions?** Using cash to acquire revenue can be accretive to bottom line profitability. However, with stock price valuations elevated the costs to acquire revenue in many cases is becoming less attractive and often not immediately accretive.
- **Share Repurchases?** While share repurchases do not increase top-line revenue growth or bottom line profitability, it does make it APPEAR the company is more profitable when they report earnings on a per share basis. The illusion of an immediate increase in profitability

supports asset prices in the short-term despite potentially decreasing fundamental value.

From an investment standpoint, share repurchases by companies are a message that companies simply have no better options available with which to grow earnings and protect shareholder value. So, back to Mr. Buffett who has been sitting on over $100 Billion in cash and T-bills over the last few quarters. **With a dearth of value in the market, there have been few opportunities for a legendary value investor to deploy capital in a manner that will generate an attractive future rate of return.** However, sitting on cash, in a low interest rate environment, is also not conducive as the purchasing parity power of cash is eroded by inflation. So, what does the *"World's Greatest Value Investor"* do when there is no better use for cash - buy back shares of your own company, of course. The message from Buffett is quite clear - there is little value left in the market today otherwise he would be allocating his cash hoard very differently. While many suggest that individuals should just *"buy and hold"* investments regardless of what the market does, **Mr. Buffett's actions reinforce the view that buying assets at current valuations is likely to have a disappointing outcome.** Does this mean you should never invest? Of course, not. But as Mr. Buffett himself has stated:

> *"Be fearful when others are greedy. Be greedy when others are fearful."*

Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **The Bond Market Goes Its Own Way** by Caroline Baum via MarketWatch
- **Still Haven't Learned Friedman's Lessons On Trade** by Mark Perry via FEE
- **Trump Will Kill The Global Recovery** by Nouriel Roubini via Project Syndicate
- **Four Questions For Chairman Powell** by Norbert Michel via Forbes
- **Game Theory & Trumps Trade Strategy** by Mohamed El-Erian via Bloomberg
- **The Flattening Yield Curve** by Neel Kashkari via Medium
- **Mass Hysteria** by Mike "Mish" Shedlock via TheMaven
- **Tax Cut Bill Triggers $437 Billion In Stock Buybacks** by Matt Egan via CNN
- **Bubble World Is Here** by Scott Sumner via The Money Illusion
- **Global Population Growth Ceased In 1988** by Chris Hamilton via Econimica Blog
- **What If Economic Growth Isn't A Positive As You Think** by Martin Kirk via Fast Company
- **How Socialists Misunderstand Poverty** by Andrew Moran via LibertyNation.com
- **Gallup Shows How Much Americans Really Care About Russia** by Tyler Durden via Zerohedge
- **How Much Damage Will Trade War Do?** by Annie Lowrey via The Atlantic

---

Markets

- **Nomura: We're Nearing The Pain Point From THE PBOC** by Tyler Durden via ZeroHedge
- **Cyclically Non-Adjusted Earnings** by Eric Cinnamond
- **Gartman: A Stunning Rally Is On The Way** by Shawn Langlois via MarketWatch
- **How To Prepare For A Market Surprise** by Jeff Sommer via NYT
- **Support Can't Stop Silver's Slide** by Dana Lyons via The Lyons Share
- **Don't Worry About The Yield Curve** by Michael Cannivet via RealClearMarkets
- **Rising Energy Prices & Iran** by Simon Constable via PJ Media
- **Stock Market Sets A Bearish Record** by Ryan Vlastelica via MarketWatch
- **A 2019 Recession Is The Most Likely Outcome** by Paul Kasriel via Financial Sense

- **Bull Market Rallies Past One Obstacle After Another** by Mark Decambre via MarketWatch
- **Fed Is Whistling Past Two Looming Threats** by Pedro Da Costa via Business Insider
- **A Stealth Bull Market** by Jeffrey Saut via Financial Sense
- **Warning Signs Are Very Pronounced** by Sven Henrich via NorthmanTrader.com

---

Most Read On RIA

- **The Myth Of Buy And Hold Investing - Part VII** by L. Roberts, M. Lebowitz & J. Coumarianos
- **Is The Fed's New Yield Curve "Professional Grade/"** by Michael Lebowitz
- **Quick Take: I Call B.S.** by Doug Kass
- **A Look At The A/D Line** by Lance Roberts
- **Do You Have Too Much Stock Exposure** by John Coumarianos
- **The Data Is In: Tax Cuts & The Failure Of Trickle Down** by Lance Roberts

---

Research / Interesting Reads

- **When Risk Disappears From View** by Wolf Richter via Wolf Street
- **Three Metrics Of Stock Market Overvaluation** by William Baldwin via Forbes
- **Why Real Wages Still Aren't Rising** by Jared Bernstein via NYT
- **Marks: Warning Of A Late Stage US Economy** by Anneken Tappe via MarketWatch
- **Pretty Soon You Will Invest Like Ray Dalio** by Nir Kaissar via Bloomberg
- **Soon There Will Be Only 1-BlockBuster Left** by Julia Jacobs via NYT
- **The Fallacy That Became A Fallacy Itself** by Koen Smets via Medium
- **Earnings Growth - A One Trick Pony** by Jamie Powell via FT Alphaville
- **Gig Economy: Boomers Make 60% More Than Millennials** by Patrick Kiger via AARP
- **Mind The Trap Door (Understanding Valuations)** by John Hussman via Hussman Funds

---

> ***?Predicting rain doesn't count. Building arks does." -*** *Warren Buffett*

Questions, comments, suggestions ? please email me.