FINANCIAL
Insights

MERITAS ADVISORS

Meritas Advisors, LLC

May

What the Past doesn’t tell us

The U.S. stock markets have entered another period of volatility, which reminds us a bit of last December before the market calm of January and February. Does this new bout of volatility mean that cautious investors should get out of the markets? What does history tell us about what to do when the markets get choppy?

The answer is that history is kind of all over the place, and not an especially reliable guide to the future. In a recent article in Bloomberg, the author looked at six episodes over the past five years where the two-day change in the so-called VIX volatility index exceeded a 6.45 point surge—which, the article noted, had recently taken place for the first time since January.

The first was August 2015, when China shocked the world by unexpectedly devaluing its currency. On August 21, the VIX index closed above 28, almost 13 points above where it had ended on Wednesday. On the next trading day, the VIX peaked at 53.29. This triggered a sell-off in the markets, on fears of a hard landing in China. The lesson: sell!

Another rapid shift in the VIX occurred in June 2016, after the shock results of the U.K. referendum on European Union membership gave us all the familiar term: “Brexit.” The VIX index closed 6.6 points over the level it had been when the British people were heading to the polls.

In the coming month, the S&P 500 index rose more than 8%. The lesson: buy!

Remember February 2018? The fear gauge closed at 17.31 on Friday, February 2 and rose to 37.32 the following Monday. Stocks yawned, and were virtually flat over the next three months. The lesson: hold!

In late March 2018 the VIX rose 7 points over two days, after China announced its retaliation against tariffs proposed by President Donald Trump. Stocks struggled, and then the S&P 500 rose 6.4% over the next three months, reaching all-time highs. The lesson: buy!

In October 2018, Fed Chair Jerome Powell announced that the policy rate was “a long way from neutral,” signaling the intention to raise the Fed funds rate. At the same time, there was news that the ongoing trade war with China was having a larger impact on Corporate America’s profitability than previously thought. The VIX closed above 20, and stock market shares fell 16% in the weeks ahead. The lesson: sell!

In December 2018, the VIX rose 7.7 points on Christmas Eve, which marked the end of a tough month for the markets. The next month, the markets experienced their best start to a year since 1987. The lesson: buy!

Obviously, this suggests that this particular tea leaf is not a perfect predictor of how to profit in the U.S. stock market. But you are going to hear pundits, prognosticators and traders confidently tell you that the VIX is a surefire way to time the markets. They’ll sound persuasive. And their rightness or wrongness will be entirely random.

-Bob Veres

Source:

https://www.bloomberg.com/news/articles/2019-05-08/what-to-expect-from-u-s-stocks-after-volatility-goes-haywire

The market at a glance

April

U.S. Large Cap
(S&P 500)

2,945.83 (3.93%) ▲

U.S. Mid/Small
(Russell 2000)

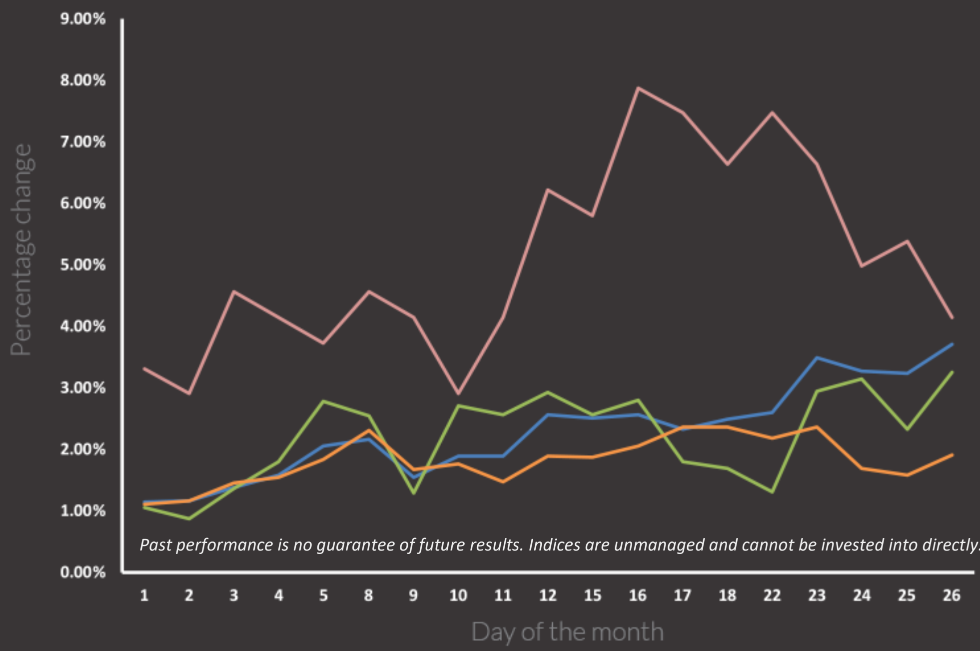
1,591.21 (3.34%) ▲

International Large
(NYSE International 100)

5,543.45 (2.40%) ▲

U.S. Treasuries
(U.S. 10-year Treasury yield rate)

2.51 (4.15%) ▲



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- After it lost more than $25 billion in market value following the global grounding of its flagship 737 max aircraft, Boeing reported a 21 percent drop in profit in its first-quarter earnings report. Rival airline manufacturer Airbus gained ground during Boeing's slip and saw a 24 percent increase in first-quarter sales. Airbus is now projected to surpass Boeing in terms of plane deliveries to retake the title of world's biggest plane manufacturer by the end of the year.

- Apple and Qualcomm have reached a settlement – of an undisclosed amount – over a patent royalty dispute related to the usage of Qualcomm's telecommunications chip technology in iPhone devices. The settlement ends a nearly two-year-long legal battle, in which Qualcomm claimed Apple was $7 billion behind in royalty payments. Following the news, shares of Qualcomm rose more than 20 percent, boosting its market cap by more than $14 billion.

- Target shares closed down 6 percent and Walmart shares down 2 percent following the announcement from their e-commerce rival, Amazon, that one-day shipping will be the standard for all Amazon Prime subscribers moving forward. Amazon Prime subscribers currently total more than 100 million and Amazon is expected to spend $800 million in warehouse and infrastructure improvements to meet the one-day shipping promise.

- Shares of electronic vehicle manufacturer, Tesla, dropped more than 10 percent in response to disappointing delivery numbers during the first quarter. Analysts had expected Tesla to deliver 76,000 electric vehicles to consumers in the first three months of the year, with actual deliveries coming in at 63,000. Responding to the news, Tesla reaffirmed confidence in meeting analysts' year-long forecast of 360,000 to 400,000 vehicles.

Biggest IPOs of all time

Just over a month has passed since ride-sharing and transportation service Lyft went public in late March and analysts are already looking ahead to what should be a busy remainder of the year for tech IPOs. Also expected to also go public in 2019 alongside Lyft's competitor Uber are Airbnb, Slack, Palantir, Robinhood, Pinterest, and Postmates.

Though most of these tech companies are widely recognized consumer services that will raise billions when its shares hit Wall Street, some of them will have a hard time ranking among the largest IPOs in history. Before these contestants hit the market, here is a look at the 10 largest IPOs of all time.

10. Infineon

Date of IPO: March 13, 2000

Amount raised from IPO: $5.2 billion

Semiconductor manufacturer Infineon Technologies is based in Germany and produces chips for use in the automotive and industrial sectors along with chipcard and security products that can be found in phone SIM cards, chip-based passports, and more.

After its IPO in March of 2000, Infineon shares more than doubled the offering price making for quite a successful IPO. However, Infineon eventually delisted from the New York Stock Exchange (NYSE) in April of 2009 citing costs of listing as a primary factor. Today, the stock is still offered on the Frankfurt Stock Exchange in Germany.

9. United Parcel Service (UPS)

Date of IPO: November 10, 1999

Amount raised from IPO: $5.5 billion

American package delivery and supply chain management company UPS is based in Atlanta, GA and is one of the most recognized names in the U.S. shipping industry. Its largest divisions and subsidiaries include an airline cargo subsidiary, UPS Airlines, a freight-based trucking division, UPS Freight, and a retail-based packing and shipping center network, The UPS Store.

In 2018, UPS recorded an annual profit of $71.9 billion compared to its competitor FedEx, who recorded $65.5 billion. The two have been in a tight race for decades in the delivery service market and Statista currently reports that UPS currently trails competitor FedEx in the global delivery service market holding a 22 percent market share compared to FedEx's 24 percent.

8. Telecom Eireann

Date of IPO: July 8, 1999

Amount raised from IPO: $5.5 billion

The largest telecommunications company in Ireland, Telecom Eireann, debuted on the Irish, London, and New York Stock Exchange as a result of its privatization from state ownership in July of 1999. Though brand recognition in the U.S. and success on the NYSE was limited, over 20 percent of Ireland's adult population invested when it debuted in Dublin.

Just one year later, the company split into two divisions – one of which sold to Vodafone for just over $5 billion (€4.5 billion). Vodafone Ireland remains the largest mobile phone operator in Ireland, while it currently competes with the other division from the split – Eircom.

7. Kraft Foods

Date of IPO: June 13, 2001

Amount raised from IPO: $8.7 billion

American grocery manufacturing and processing conglomerate, Kraft Foods, went public in June of 2001 with a strong portfolio of consumers brands that included Kraft Macaroni & Cheese, Maxwell House coffee, Philadelphia Cream Cheese, Oreo cookies, and Oscar Mayer meats. Despite these widely popular household name brands, the stock opening with little investor interest and rose just one percent on the first day of trading.

A restructuring in 2012 spun off Kraft Foods Inc. into two publicly traded companies: Kraft Foods Group, Inc. and Mondelez International. Kraft Foods Group retained the grocery brands while Mondelez International focused on snack and confection brands. Then, in 2015, Kraft Foods Group merged with Heinz to become Kraft Heinz, which is currently the third-largest food and beverage company in North America.

6. AT&T Wireless

Date of IPO: April 27, 2000

Amount raised from IPO: $10.6 billion

Parent company AT&T wanted to capitalize on the success of its wireless division by debuting AT&T Wireless as a "trading stock," which trades on the performance of a company's division but does not yield control of the unit or require the division to spin off into a separate entity.

AT&T Wireless struggled in the years that followed the IPO and was purchased by competitor Cingular in 2004 for $41 billion. When parent company AT&T was purchased by Southwestern Bell Corporation (SBC) in 2005, the better-known AT&T brand name was chosen to be the primary marketing vehicle for Cingular's services. Today, AT&T Wireless is the largest mobile provider in the U.S. with 155.7 million subscribers, ahead of Verizon's 153.2 million.

5. General Motors

Date of IPO: November 18, 2010

Amount raised from IPO: $15.8 billion

As an automobile designer, manufacturer, marketer, and distributor, General Motors (GM) currently manages the Chevrolet, Buick, GMC, and Cadillac brands in the U.S. Additionally, GM has ownership or joint ventures with automobile companies across the world including Korea, China, India, Russia, South Africa, and more.

The financial crisis of 2008 crippled GM leading to a bankruptcy filing in 2009 that included a $50 billion bailout from the U.S. government. With the bailout, aggressive cost-cutting, and streamlined operations, GM was able to successfully conduct an IPO in 2010 and returned to profitability in 2011.

4. Facebook

Date of IPO: May 18, 2012

Amount raised from IPO: $16.0 billion

Social media company, Facebook, had an eventful IPO day as a technical error with the Nasdaq delayed trading of its stock leading to losses of roughly $500 million to investors. Still, the offering stands as the fourth-largest of all time and the largest of any social media company.

Though Facebook remains as one of the top five largest publicly traded companies in the U.S., it became the first-ever company to lose more than $100 billion in value in one day after reporting disappointing sales figures in July of 2018.

3. Enel

Date of IPO: November 2, 1999

Amount raised from IPO: $16.5 billion

Italian utility company, Enel, had a path similar to that of number eight on this list, Telecom Eireann. Privatization in 1999 made 31.7 percent of the company privatized, while the remainder was listed on the Italian Stock Exchange and raised $16.5 billion (€14.8 billion).

Enel found its public listing to be low-volume in the years that followed and chose to delist from the NYSE in 2007. Today, Enel is the largest integrated utility company in Europe by capitalization.

2. Visa

Date of IPO: March 18, 2008

Amount raised from IPO: $17.9 billion

Visa, the popular American financial services company that offers payment processing and credit, debit, and cash-access programs to thousands of financial institutions, went public in March of 2008 after a corporate restructuring and merger of various business units.

While the move was considered risky at the time, Visa saw shares rise 28 percent on its opening day and have since risen more than 1,000 percent from the initial offer price. As of 2018, Visa holds a 52.7 percent market share in credit card payments by dollar amount according to Forbes.

1. Alibaba

Date of IPO: September 19, 2014

Amount raised from IPO: $25.0 billion

Alibaba remains the biggest IPO in U.S. history and raised more money in its NYSE offering than household names like Google, Facebook, and Twitter combined. The IPO performed so well that Alibaba management exercised a greenshoe option to sell 15 percent more shares than originally planned, pushing the final amount raised past $25 billion.

Since the record-setting IPO in September of 2014, shares of Alibaba have performed positively, just over doubling in price as of May 2019. Still, with a market cap of $481.1 billion, the Chinese e-commerce company trails U.S. e-commerce giant Amazon, who holds a market cap of $949.3 billion.

Meritas Advisors, LLC
info@meritasadvisors.com
meritasadvisors.com

4040 Civic Center Dr., Suite 200
San Rafael, CA 94903
415-690-8547

Mi