



toll free: 855-GOLDEYS
fax: 855-465-3397
www.goldeycapital.com

Prince Charming's Kiss on Value Stocks

I have witnessed many cycles come and go throughout my 20 years' experience as a portfolio manager. No matter how many grey hairs have formed I am still perplexed on value stocks and consumer perception. The facts on these value stocks are readily available on many financial websites; they are out there lingering in plain sight, no super skills needed. My perception is that they are akin to Sleeping Beauty awaiting the kiss of Prince Charming to awaken.

Some value stocks are in industries in decline such as the long-term trend in print advertising, so we will exclude those for analysis. Other industries or stocks are not affected by this erosion to oblivion, case in point the car industry.

Barring news worthy events such as VW's cheating emissions, Toyota's acceleration problems or GM's ignition switches there is a fundamental need in the world for transportation. If your car dies do you walk to work or do you buy another one to replace it? Yes, there are disruptions to an industry such as electric cars or according to recent surveys millennials delaying car purchases because of services such as Uber or Lyft but I'm betting that companies like GM and Ford will be here and doing well in years to come. I mention this because when you invest in a company the decision should be made on future potential of earnings not past history. As of the writing of this article the aforementioned U.S. based car companies are trading at approximately 7 times forward earnings, and the kicker is they pay a nice dividend. In addition the trend in car sales looks promising in a low interest rate environment based on the quarterly sales numbers that show record growth.

None of these statistics matter in a Sleeping Beauty value stock until they are kissed by Prince Charming. Sometimes they do emerge briefly from their sleep in a slow manner, yawning and going back for a quick nap until we suddenly realize they have awoken and are trading at more reasonable values. In this volatile market my observations are that these value stocks in plain sight do not start appreciating until a well-known investor publicly proclaims they are buying these "beaten down" names. Suddenly these stocks make a positive move having been kissed by the dashing and intelligent investor, aka Prince Charming. Almost like an endorsement that it is OK to get back into the water now that the lifeguard has blown the whistle to signal safety.

The antidote to this Value Coma is patience. It is one thing to say we need patience and another to practice it because emotions get in the way and we want action. Humans need to see progress, and value stocks can sometimes make watching paint dry seem exciting.

The future is forward, so a company's potential to have positive future earnings is the key driver to buy/sell/hold. If that earning future erodes then it mandates an evaluation of why we would like an investment.

Another example of this illogic of facts versus reality is the new category of REIT's for single family homes. I have written about this before but it still stymies me that there is so much value in plain sight. All the current and future statistics clearly show a decrease in home ownership and increase in rentals, yet many names in this space are selling at a discount to their Net Asset Value. So the trend for management of these companies is to buy back shares when wise or as Warren Buffet stated in a Berkshire Hathaway 2012 shareholder letter, "Disciplined repurchases are the surest way to use funds intelligently: It's hard to go wrong when you are buying dollar bills for 80 cents or less. But never forget: In repurchase decisions, price is all-important. Value is destroyed when purchases are made above intrinsic value."

Sometimes value stocks awaken with a kiss and other times with patience, either way the time to own them is before they make their move higher.

All the best,

Ian Goldey

Ian Goldey

President

Disclaimers: The opinions shared in this letter are based on the author's viewpoints and are not to be taken as solicitations for any single investment. This letter is intended for clients of Goldey Capital and for information purposes only. No investment should be made by individuals without weighing out the risk, and past performance is no guarantee of future results. Always consult your tax and legal professionals before making decision that could impact your investments, as Goldey Capital does not provide such advice. Hyperlinks to a third party website that support the author's comments have not been screened for accuracy and have not been altered by Goldey Capital. Any solicitation or advertisements on third party websites outside of Goldey Capital have not been endorsed by our firm, and we are not liable for information on those sites. All funds mentioned in this letter have prospectuses available should the reader wish to learn more. All examples, graphs, charts and the like are for illustrative purposes only. Clients of Goldey Capital are managed on a discretionary basis and have been given a separate signed agreement for fees and management style. All comments and opinions in this newsletter are owned by Goldey Capital and may not be reproduced in any way without the express written consent of the owner. Commentary from the author regarding decisions that may or may not have worked as expected are not to be construed as trading errors but rather honest opinions articulated to the reader.