Barron's Summary
Saturday, January 06, 2018 08:16:02 PM (GMT)

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- **Cover**:
  - The real trend behind the tired active/passive debate is that investors, when given the option, have sought to move their money into lower-cost funds. Still, some $1.3T, or more than 8% of the mutual fund industry's assets, remain in the two most expensive quintiles of annual fees. Why is all that money still there? The overarching conclusion is that the "little guy" still pays the most, be it in the 401(k) plans of small businesses, funds sold through commissions, target-date funds, or in small portfolios that fail to command the attention of advisors. Barron's offers some advice on how to make sure you aren't overpaying (link).
    - Mutual Fund Quarterly: Mutual fund share classes explained. What share class you own in a mutual fund goes a long way in determining the size of the fee you pay. Barron's breaks down the most common kinds of share classes, and which ones you should shoot to own (if you can get them) (link).
- **Features**:
  - Mutual Fund Quarterly: Is it time to de-FAANG your portfolio? In 2017, the five FAANG stocks -- **Facebook (FB), Apple (AAPL), Amazon.com (AMZN), Netflix (NFLX), and Google parent Alphabet (GOOGL) --**returned an average of 49.2% vs 22% for the S&P 500. The FAANG five account for 13% of the S&P. Barron's asked Morningstar to run a scan of large-cap equity funds with at least 1.5 times the S&P's weighting of the FAANGs. Barron's then screened those for the most widely held funds with at least $300M in assets, and ranked those funds in terms of exposure to FAANGs. Not surprisingly, many of those funds beat their benchmark this year, and often boasted superior returns for the last three and five years as well. After such a strong run, investors in these funds may want to consider reducing their exposure to the FAANGs by rebalancing into funds with lighter technology weightings. That said, investors who want long-term growth must keep tech in the fold. Just keep in mind that there is risk of underperformance during a downturn (link).
  - **FedEx (FDX)**: Barron's renews its positive view on FedEx, which along with UPS has been thriving in the age of e-commerce, and has seen its shares rise 64% since Barron's recommended them two years ago. With U.S. postal rates likely to rise, the private shippers could gain cover for more price increases of their own. Investors should favor FedEx over UPS because the former is at the tail-end of a years-long capex cycle that has seen it automate and expand its hubs, giving it a speed and efficiency advantage. As a result, FedEx's market share in ground deliveries has been rising. With cyberattack costs largely in the rearview, EPS growth for FedEx should more than triple next year as tax cuts kick in. Look for shares to rise another 20% over the next year (link).
  - A sudden 6% rise in gold prices in the past four weeks to $1,320/oz could be just the beginning for the precious metal, which has largely disappointed investors since hitting an all-time high of $1,900 in September 2011. While gold typically underperforms when stocks and short-term rates are rising, other developments suggest this could be a good time to start building positions in the metal and mining shares. The bullish thesis on gold centers on the dollar's continued decline and renewed inflation (which Barron's discussed extensively in last week's issue). Barron's notes that junior miners typically outperform large-caps in a gold bull market. Positive on **Agnico Eagle Mines (AEM)** and **Goldcorp (GG)**, which both have relatively healthy balance sheets, low production costs, and look poised to increase gold output and operating income. Also positive on **Newmont Mining (NEM)**, citing its geographical diversity and management's successful efforts to keep costs and long-term debt low (link).
  - Barron's profiles Polyverse, a Seattle-area start-up that has created an innovative and disruptive new "moving target defense" strategy to combat cybertheft. Should **Cisco (CSCO), FireEye (FEYE, Palo Alto Networks (PANW),** and **Symantec (SYMC)** be worried? (link).
  - The "Super Bowl of technology trade shows": The Consumer Electronics Show in Las Vegas has revealed fewer big product breakthroughs in recent years, but investors will still reward companies that grab some attention. For example, **Nvidia (NVDA)** CEO Jensen Huang delivered the keynote address last year, projecting a narrative that his company was at the intersection of several emerging technologies. It was the right message at the right time, and

    the company's stock nearly doubled in 2017. CES has become a gathering spot for VCs, growth investors, PE firms, and hedge funds trying to find the companies best positioned in fledgling markets (link).
  - Using FactSet data, a Barron's analysis found that analyst recommendations regarding small-cap stocks have had little to no power to predict returns over the following year. Don't dismiss Wall Street research altogether, but do your own homework (link).
- **Columns**
  - *The Trader:* The year got off to a red-hot start, with the Dow, Nasdaq, and S&P rising 2.3%, 3.4%, and 2.6% on the week, respectively; A tepid jobs report on Friday was given the "goldilocks" treatment; The Dow topped 25,000, and the next round number for a major index would be 3,000 for the S&P 500, which is just 260 points away; It could have trouble getting there if inflation kicks in; It's hard not to wonder if sentiment has gotten overly positive.
    - *Trader Extra:* The backdrop for bank stocks looks great right now, but Q4 earnings reports figure to be extremely noisy as one-time charges and gains related to tax reform are accounted for; How banks use their tax savings could be a wild card moving forward, and some analysts may be setting the bar too high; Banks still look cheap relative to the market, but buckle up for a potentially bumpy ride; Positive mention for **Wells Fargo (WFC).**
    - *Trader Extra:* **Las Vegas Sands (LVS), Wynn Resorts (WYNN),** and **Melco Resorts & Entertainment (MLCO)** fell last week after Macau's monthly data revenue data disappointed; Several analysts point out that the numbers were not really as bad as they looked; Macau casino stocks rallied quite a bit in 2017, but it's not time to take profits just yet.
  - *International Trader (Europe):* Online food-ordering services **Just Eat (JE.LN)** and **Delivery Hero (DHER.GR)** have logged stock gains of more than 20% over the last six months thanks to rapid growth, but both look overvalued at current levels; Use GrubHub (GRUB) 2015 as a cautionary tale; With more competition coming, investors should let these stocks digest their gains.
  - *Emerging Markets:* The big Saudi Arabian and Russian markets struggled last year, failing to benefit from a 17% rise in Brent crude prices over the past 12 months; Both, especially the Saudi market, could be in for a catch-up bounce in 2018; The Saudi market will likely benefit from inclusion in the two major global emerging market indexes, MSCI and FTSE Russell; Pakistan could be a riskier but possibly more explosive rebound play.
  - *Current Yield:* Most experts see tax cuts as mildly positive for investment-grade bonds, despite reduced supply, tight spreads, and a preponderance of BBB-rated issues.
  - *The Striking Price:* Kohl's (KSS) has become one of the hottest plays in retail, thanks to solid holiday sales, and much more to rumors that Amazon could buy it; Even without Amazon, Kohl's is making the right moves to grow earnings, and trades at a reasonable 10.5 times earnings estimates; A recommendation to buy calls.
  - *Commodities Corner:* Expect the price of regular unleaded gasoline to climb to its highest annual average since 2014, thanks in large part to production cuts led by OPEC; How high gas prices go will hinge on how quickly and easily U.S. shale production can fill some of the void.
  - *Insider Transactions:* A list of recent purchases and sales of U.S. companies made by insiders.
  - *Up And Down Wall Street:* BofA ML makes the case that the new tax law could actually hurt future corporate earnings, given that higher returns could incentivize competition and impact margins, and stronger growth could result in more aggressive Fed tightening; As highlighted in last week's cover story, P/E ratios could become constrained by rising interest rates, which could be the product of inflationary pressures, continued Fed tightening, or a combination of the two; Wage inflation remains absent from employment data, and is being dampened by part-time workers and the addition of younger workers to replace baby boomers, who would typically be retiring at their peak career salaries; If inflation were to feed through to wages, it could upend both the stock and bond market; Despite the domestic market's great year in 2017, it still lagged those from abroad when measured in USD; While the White House often brags about the rally on Wall Street, keep in mind that synchronized global growth has had more to do with it than U.S. policies.
  - *Streetwise:* Despite a flurry of high-profile acquisitions at the end of the year, U.S. M&A actually declined 14.9% in 2017 according to Mergermarket, though the number of transactions was roughly the same; Potential deal makers are "on the clock", given that the bull market is probably in its waning stages and the Fed will be making interest-rate hikes; Amazon's

continued disruption could be a key factor driving an anticipated wave of mergers in 2018

  - *Technology Trader:* You can't really blame **Intel (INTC)** for last week's revelation that its chips were vulnerable; The real problem isn't the chips, it's the nature of technology and how the industry approaches computer security
  - *Speaking of Dividends:* The outlook for global payout growth in 2018 looks very strong; Large U.S. companies expected to raise their dividends in Q1: **Charles Schwab (SCHW), Valero Energy (VLO), NextEra Energy (NEE), Allstate (ALL), Cisco Systems (CSCO), Home Depot (HD).**
  - *Follow-Up:* From a cyclical valuation perspective, the time has come to take profits in **Caterpillar (CAT).**

Reference Links:

- Barron’s

Industries: Unspecified, Electric Utilities, Constr. & Agric. Machinery, Oil & Gas Operations, Insurance (Prop. & Casualty), Investment Services, Money Center Banks, Gold & Silver, Casinos & Gaming, Retail (Internet & Catalog), Retail (Home Improvement), Retail (Specialty), Computer Hardware, Computer Networks, Computer & Internet Services, Air Courier
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