Barron's Summary -
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- **Cover**:
  - Barron's examines John Malone's media empire, comprised of 10 companies under the Liberty umbrella that have a combined market value of $80B. The sheer number of Liberty entities and their often complex structures can be daunting to investors, but those who have taken the time to understand them have been rewarded. Liberty Media, Malone's main investment vehicle, is up 10X since taking shape in 2006 after adjusting for a multitude of transactions, such as the well-timed sale of DirecTV to AT&T in 2015. Currently, many of the stocks in the Liberty empire look attractive after having lagged behind the market in the past year. Liberty Media itself has three tracking stocks: **Liberty Braves (BATRK), Liberty Formula One (FWONK),** and **Liberty SiriusXM (LSXMK).** Malone is also chairman of **Liberty Global (LBTYA),** the biggest international cable company. The following Liberty entities track other stocks, and all trade at discounts to the value of their stakes: **Liberty SiriusXM, Liberty Broadband (LBRDK), GCI Liberty (GLIBA), Liberty Expedia Holdings (LEXEA),** and **Liberty TripAdvisor Holdings (LTRPA).** Lately, the discounts to asset value have been widening, creating an opportunity for investors. While Liberty may no longer have the excess liquidity necessary to do transformative transactions, Malone is committed to being "an opportunistic company". Malone is known for complex financial engineering, identifying good managers, and patience, all of which make his entities appealing to investors. See article for a full breakdown of the publicly traded companies controlled by Malone and the companies in which Malone has effective control or influence (link).
- **Features**:
  - Tariffs and mounting trade tensions, particularly between the U.S. and China, are causing C-suite executives and investors alike to focus more on the global supply chains that have been built over the past two decades. In many cases, companies are being faced with a decision between changing or establishing new supply chains, or passing costs on to their customers. Caterpillar (CAT) was one of the first companies to see tariffs hit its bottom line; it is holding off on major supply chain changes, choosing instead to partially offset the impact through price increases and cost cuts elsewhere. **Cummins (CMI)** is somewhat lucky in that it diversified some of its alternator production away from China, but will still feel the pinch. **Stanley Black & Decker (SWK)** has managed to receive tariff exemptions from the U.S. Commerce Department while raising prices on products, including on certain hand tools and lasers, to pass its tariff costs to customers. **Polaris Industries (PII)** is negotiating with its Chinese suppliers to share the tariff burden. Few companies, from **Ralph Lauren (RL)** to **Intel (INTC)** to **Briggs & Stratton (BGG)**, want to give up their carefully planned and constructed supply chains, opting instead for short-term responses like price hikes and eating tighter margins. These sorts of decisions can't remain ad-hoc for long, as de-escalation of trade tensions does not appear imminent. One result could be the advent of more regionalized supply chains and localized production, particularly as automation offsets some labor-cost differences between regions (link).
  - "Qualified opportunity zones", or designated low-income neighborhoods, may be the next big thing in investing. Buying equity in a business or real estate in such areas comes with "significant tax benefits". How significant? If you roll the capital gains from the sale of anything (home, car, stock) into a "qualified opportunity fund" and hold it for 10 years, you get to defer paying capital-gains tax until the end. Then, you're only taxed on 85% of your original investment, and 0% of any money generated by your initial principal. When Congress created these zones with bipartisan support, the rules were murky, but recent clarifications by the IRS have investors buzzing. Not to mention, the plan has the potential to do a lot of good for struggling, underserved communities (link).
  - This week's midterm elections did not meaningfully change the U.S. economic outlook, but they did reveal useful information about Americans' policy preferences on issues like trade, taxation, and the proper size of the safety net. A return to divided government limits the prospect of additional tax cuts and reintroduces the risks of “fiscal cliffs” associated with the debt ceiling and the budget. On the flipside, a split Congress means that Republicans will have

    little opportunity to cut spending on health care and other programs. Government spending increases the private sector's income, while taxes decrease purchasing power, so the net effect on the economy should be limited. On trade, Democrats could opt to reverse or limit recent tariffs. State and local election results suggest that there is popular appetite for raising the federal minimum wage, and little desire to roll back the government's expanded role in paying for healthcare (link).
  - Trump's deal with Canada and Mexico to replace Nafta will need congressional approval, and the shakeup in the House of Representatives might make that difficult. Specifically, new Democratic leadership in the house could push for more pro-labor provisions in the new agreement (link).
  - Q&A: Barron's asks Libby Cantrill, head of public policy at Pimco, about her post-midterm outlook for trade, infrastructure, and a more Trumpy Senate. She says that Pimco is generally "cautiously positioned", reducing credit across portfolios while adding "dry powder" to take advantage of opportunities as they arise (link).
  - Barron's interviews Ron Epstein, who has been covering defense and aerospace for Merrill Lynch since 2001. He notes that defense budgets are already set to expand for years to come, and that the new Democratic House isn't likely to push spending cuts. He is positive on **Boeing (BA), CAE (CAE), General Dynamics (GD), Huntington Ingalls Industries (HII),** and **Lockheed Martin (LMT)** (link).
- **Columns**:
  - *The Trader:* While the market had a very good week with the Dow gaining 718 points, there are dueling narratives at play; For one: should investors be taking their queues from politics, or from the Fed? The Fed said nothing significant in its statement on Thursday, reaffirming the belief that it is on track to raise rates again in December; Trade is another issue that has the market treading water, and no one seems to have much conviction about what the outcome of US/China trade talks will be.
    - *Trader Extra:* Positive on **Dollar Tree (DLTR)**, whose valuation is at a five-year low; The company looks likely to bounce back from its acquisition of Family Dollar, which has dragged on results; If not, an activist investor like Carl Ichan could get involved to force more drastic action.
    - *Trader Extra:* Former **Wynn Resorts (WYNN)** CEO Steve Wynn, who resigned after sexual misconduct allegations, sold his entire $2.1B interest in the company in March; The well-timed sale saved him $900M.
  - *International Trader (Europe):* Positive on Hungarian stocks, citing the country's strong capital flows, fast economic growth, low borrowing costs, improved banking sector, valuations below historical averages, and high dividend yields.
  - *Emerging Markets:* Despite Russia's challenging political situation with the U.S., its stocks "have become an unlikely paragon for many emerging market investors based on fundamentals" and are carrying rock-bottom valuations.
  - *The Striking Price:* Options traders have turned bullish on China again, but recent volatility means that wagering in China via options is pricey at the moment; Bullish traders should perhaps consider selling options rather than buying them.
  - *Barron's Commodities:* ETFs backed by gold increased their holdings by $1B in October, potentially marking a bullish shift in investor sentiment towards the precious metal.
  - *Up and Down Wall Street:* Stocks enjoyed a post-midterm relief rally Wednesday, but this relief faded by week's end; Still the DJIA finished up 2.8% on the week; Democratic control of the House probably means no middle-class tax cuts, while infrastructure investment could be one area of agreement between the two parties, according to Fitch; Court Street Group, a municipal bond advisory, argues that Democratic control of the House increases the chances of reviving Build America Bonds.
  - *Up And Down Wall Street:* Some Chinese companies are starting to feel a credit crunch as a result of tariffs imposed by the U.S., and the nation's banking and insurance regulator is taking steps to help counter it.
  - *Streetwise:* A split Congress means that there's a strong chance of dealmaking; Unfortunately, there is little chance of deal making that will be good for the fiscal health of the country; Both Democrats and Republicans want to cut taxes on the middle class and invest in infrastructure; The problem is that the federal government already plans to spend $4.5T in 2019, while collecting just $3.5B in taxes; Barron's offers some advice to lawmakers, such as taking a bipartisan approach to reforming healthcare: if anyone has a better idea than fixing up Obamacare or gradually expanding Medicare eligibility, now is their chance to pitch it to the

public.
    - *Technology Trader:* 5G is coming, and its eventual widespread use will be a major development for the communication-services value chain; A range of tech and telecom companies stand to benefit from the proliferation of 5G, including **Intel (INTC), Cisco (CSCO), Keysight Technologies (KEYS), National Instruments (NATI), Texas Instruments (TXN), AT&T (T), Verizon (VZ), Qualcomm (QCOM), CommScope Holding (COMM),** and **Arris International (ARRS).**
    - *Income Investing:* Mom and pop investors seem to be souring on the corporate debt market -- an unfortunate development for companies and their borrowing costs; Individual investors have been withdrawing from bond funds for a simple reason: the funds have not performed well, just as income-investing alternatives are starting to offer higher yields.
    - *The Economy:* A new study by Matthew Shaffer, a doctoral candidate at Harvard Business School, suggests that independent valuation experts can provide limited, but useful, guidance to executives trying to create value through M&A.
    - *Follow-Up:* Barron's believes that it's time to take profits on **Kroger (KR)**, which has returned 29%, including dividends, since the paper wrote positively on the stock on 12-May; Upside earnings surprises are supposed to make stocks go up, but that hasn't been the case for Kroger in five of the past seven quarters; While the company's outlook remains bright, the somewhat inexplicable volatility means investors should consider cashing out.

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