COMMENTARY

September 14, 2018

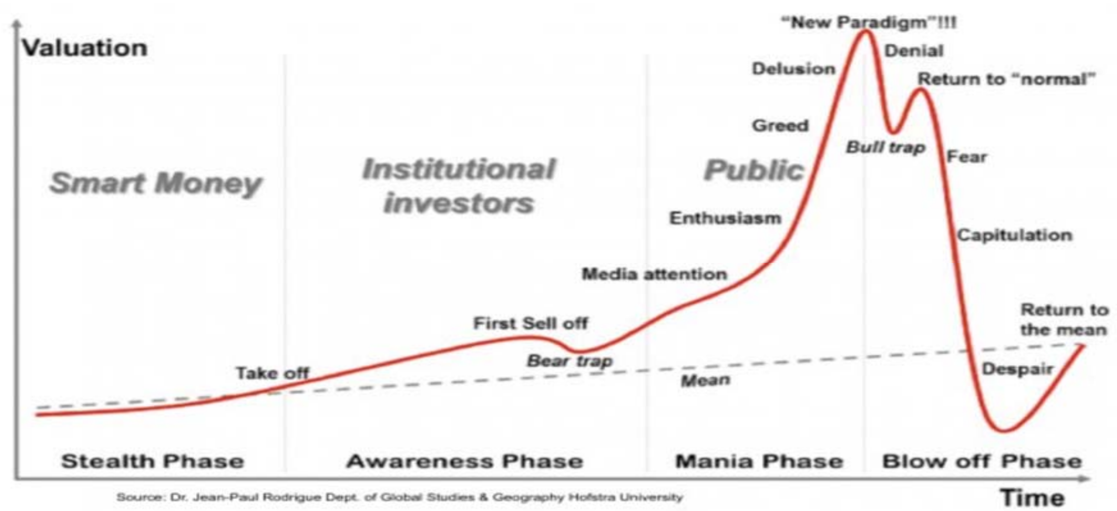
Dear clients and colleagues,

In February, during the last bout of volatility for this long upward trend, we discussed whether it was the end of the bull market.

As of today's writing, this bull market's duration has become the longest in history. Beginning in March 2009, the S&P500 has returned 406% (including dividends), equity valuations are expensive and on a price to sales ratio, we are at an all-time high.

And maybe most importantly, with record inflows into equities driven by retail investors and FAANG (Facebook, Apple, Amazon, Netflix and Google) valuations reaching into the stratosphere, the exuberance is back! We are also now seeing extreme speculation in biotech companies.

Where can the market go?



We believe that we are approaching the "New Paradigm" with regard to FAANG stocks and would certainly caution investors to be careful.

However, looking at the Global and International small cap index vs the Nasdaq100, we believe there are still opportunities to invest in global small cap equities.

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	MXWOSC Index	USD	58.81%	76.34%	12.38%	12.01%
2)	MXEASC Index	USD	45.14%	63.96%	--	10.39%
3)	CCMP Index	USD	125.31%	139.74%	75.78%	19.10%
4)						
5)						
6)						

Source: Bloomberg

Looking at it from the perspective of earnings growth, balance sheet (debt) or valuation, small cap stocks (less than US$8 Billion) are far more attractive than large caps, especially mega cap technology stocks. Additionally, the recent acquisitions of Sodastream by PepsiCo or Costa Coffee by Coca Cola show the appeal of smaller companies from a M&A standpoint.

The current market is reminiscent of another time when the stock market reached record highs, investors began chasing just a few companies and geopolitical tensions were elevated. The peak of the Nifty Fifty was 1972, a period where all that investors needed to do was to buy the 50 most popular growth stocks and hold them forever. But then came 1973-1974, and one of the worst recorded bear markets ever experienced in the US: down 17% in 1973, down 30% in 1974 and many of the Nifty Fifty stocks down even more.

Ironically, some of the Nifty Fifty stocks turned out to be great investments, such as McDonald's or Disney; others did not fare as well, like Polaroid, Kodak or Sears. And who remembers Simplicity Pattern or Emery Air Freight?

Often called the lost decade by investors, in the period from 1973 to 1982, the S&P500 returned less than 2% annually, far below the rate of inflation. During that same period, small cap stocks returned over 10%.

Have a good weekend.

The Global Alpha Team