STOCKBOY

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New Year, Same Old Market Issues

It's Taken All of 3 Months

Last quarter's *Stockboy* predicted a few market changes. One, value stocks had a good chance to lead growth stocks in 2016, since growth stocks had such a strong 2015. Two, this year's early market fall had a decent chance to reverse itself. Three, the recent freefall in oil prices was likely a big overreaction, when looked at long term.

All three predictions, within a few months, have proven accurate (faster than I anticipated). Of course, few Wall Streeters agreed with me in the nervous days of late January and early February.

Yes, things could reverse again, but it is notable how often crowds are wrong and how taking a contrary approach can work well. When there are very strong reactions in the markets, in either direction, as there have been in recent months, it's often wise to take the opposite position going forward. Recall that an analyst for Royal Bank of Scotland (RBS) implored investors to 'sell everything' when the market was falling in January. As the market has recovered, we don't seem to hear from that guy anymore. Funny how that works, but I'm guessing his clients are not amused.

The New Fiduciary Standard

The Department of Labor recently approved a new fiduciary standard which applies to a broader group of financial advisors. Until now, many financial professionals, including most brokers, insurance agents and bankers, were exempt from the fiduciary standard, where advisors must place the interests of their clients ahead of their own. Instead, these advisors only needed to adhere to a lower standard of 'suitable' investments for clients, which allows for investments that can carry very high and hidden fees, among other problematic characteristics, for consumers.

There was quite a bit of push-back from certain advisor groups that would now be included in the new fiduciary standard. They argued the new rule would make financial advice harder to obtain for lower income Americans, by the twisted logic that if the financial advisors can't charge very high (and/or hidden) fees, they'll end up not serving that group of consumers. I don't think this self-serving argument holds water. Markets usually figure out a way to serve their customers.

I strongly believe the new fiduciary rule should be required across the board. Why would you NOT want all financial professionals to adhere to the concept of making sure investment recommendations benefit their clients first and foremost?

Yes, this new version of the standard will result in greater regulation, but as long as the regulations are enacted in a reasonable, straight-forward manner, there is great upside for the consumer.

Surprisingly, the new fiduciary standard only applies to retirement accounts. Why stop there? What makes non-retirement accounts less important?

The key to being a quality financial professional is to look out for your clients' best interests overall. By doing so, the advisor will also benefit over time. I believe this should be the approach all advisors should take, regardless of the final reach of the new fiduciary standard.

Valeant – Certainly Not the Analysts

The definition of the word valiant: to show courage or determination. If you've followed the business headlines in recent months, you've likely read that word's namesake company, Valeant Pharmaceutical, has been skewered for their misdeeds and its stock price has plummeted about 80% from its high last summer.

About a year ago, Valeant exhibited many of the common characteristics of companies with very fast but murky growth – an aggressive CEO, lots of acquisitions in a short period of time, unsubstantiated financial reports, .and a Wall Street community all too happy to 'go along' with the heady but hard to validate success story. As I read the accounts of Valeant as the year wore on, it reminded me of the exploits of Enron and Tyco.

The big boys of Wall Street happily climbed aboard the 'Valeant Express'. The (formerly) highly-regarded Sequoia mutual fund took a huge position in Valeant – almost 40% of the fund at one point last year. Further, the hedge fund Pershing Square, headed by investor Bill Ackman, made Valeant one of its largest holdings.

The Wall Street analyst crowds also jumped on the Valeant bandwagon, as they all too often do. As Valeant's stock price kept rising, analysts simply, and apparently without much independent thought, kept raising their stock price estimates as well. Then, in mid-March, when Valeant fell over 50% in one day (!), those same analysts slashed their price estimates the FOLLOWING day. Nomura cut their price target from \$175 to \$60 and JP Morgan from \$200 to \$75. How is that at all helpful to investors??? Where is the value in their opinions? How helpful is it to predict yesterday's weather?? At least a Guggenheim analyst stuck to her guns and kept a \$145 price target for Valeant (Valeant's stock price at the end of March was \$26.30). Though it seems absurd to think Valeant will go up well over 500% to reach her target, I give her credit for not bailing the day after the bad news hit.

Now that the air has almost completely come out of the Valeant balloon, as a contrarian investor I believe it's time to look at Valeant as an investment, albeit a speculative one.

Why invest in Valeant now? One, the company still has decent market positions and products (Bauch & Lomb, etc...). Further, people with much more to lose in Valeant are now in places of authority – in particular, Bill Ackman who has garnered a board seat. He has every incentive to get this ship turned around since he has a huge amount of money riding on Valeant's recovery. I'll take the 80% discount from last summer's stock price and place some money here. However, our Valeant position will be a reasonable percentage and NOT the huge bet Sequoia made. There is always risk with any stock, much less Valeant. Bold is often good. Too bold is often ultimately stupid.

More Big Business Over-reaches

Last quarter I discussed how the college football playoff committee blew it by scheduling the semi-final games on New Year's Eve in 2015, in their quest to make more money. Ratings ended up being down 40% from the year before. In March there was a similar scenario with CBS's NCAA basketball tournament selection. This popular program, once a half hour, then an hour, was extended this year to two hours! The result of their greed: ratings hit a 20 year low. They're risking hurting the goose that lays the golden basketballs and it's another example of the 'experts' being wrong and tripped up by their own greed and overconfidence.

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