

PENNOCK IDEA HUB

eResearch Corporation is pleased to feature an investment article by Edward Pennock, who is a seasoned investment professional. He, together with other experienced investment specialists, has formed a comprehensive investment website known as **Pennock Idea Hub**.

One of the features of the website is **The Morning Call**, a daily article that features an insightful commentary on the market.

Today's article begins on the following page, and is entitled:

Cognitive Dissonance

You can access the **Pennock Idea Hub** website at the following link:

<http://pennockideahub.com>

eResearch was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eResearch.ca.

Bob Weir, CFA
Director of Research

Note: All of the comments, views, opinions, suggestions, recommendations, etc., contained in this Article, and which is distributed by eResearch Corporation, are strictly those of the Author and do not necessarily reflect those of eResearch Corporation.



Pennock Idea Hub

Research Reinvented

Wednesday, February 22, 2017

The Morning Call

Cognitive Dissonance

It is a tendency for individuals to seek consistency among their cognitions (i.e., beliefs, opinions). When there is an inconsistency between attitudes or behaviours (**dissonance**), something must change to eliminate the **dissonance**. We have two examples today: natural gas and the market.

Platts forecasts that year-end storage will be 3.4 TCF. The assumption is that Supply and Demand will not be in balance this year and into next. But, 3.4 TCF is down -12% year-over-year. It is -5% below the 5-year average. It takes us back to year-end 2008 levels.

Gas in storage at October 31st year-end as a percentage of LTM gross withdrawals minus LTM net imports is actually back to 2000 levels. That, therefore, implies a supply glut. High prices are supposed to spur both drilling and production. Then, why is natural gas down a \$1 MCF since calendar year-end? Cognitive Dissonance.

The Russel 3000 has been up 16%, on average, between 2009 and 2015. Not so much if you use a base before the GFC. The Russel value was up +11% in the same time frame. This year the 3000 is up +6.8% and Value is up +3.3%. The Value Russell 1000 large cap trades at a 55% discount to the Price-to-Book Value of their growth counterparts. Currently, it trades at a 10% discount to the long-term average. The pundits are all worried about market valuations. Yet, Value is falling further behind Growth. Cognitive Dissonance.

The market has baked in earnings growth of 11% in 2017. Stocks are up more than +10% since the Election. Analysts tell us that the tax package will not be enacted until late this year or next. On the whole and in the main, analysts are reluctant to incorporate the tax benefits into their forecasts.

Yesterday, we spent several hours with a CIO with abundant U.S. experience. He asserted that the ROE for banks like Goldman Sachs is going to go from the high single digits to the low teens. That is huge. We agree. That is the market also having Cognitive Dissonance, as it is already paying for part of that improvement.

Invest the Money.



Pennock Idea Hub

Research Reinvented

Regards,

Edward Pennock CFA, Founding Partner

ABOUT PENNOCK IDEA HUB

We are creators of independent equity research. The Pennock Idea Hub team members are veterans of the investment industry. Much of our team has spent their careers at Merrill Lynch, Deutsche Bank, RBC Capital Markets, and Wood Gundy. We have taken every aspect of research back to the studs and returned to first principles. The Pennock Idea Hub marries the interests of the sell- and buy-side.

We offer the best research for institutional investors by: only publishing research from veteran Analysts; eliminating the inherent conflicts of the traditional sell- and buy-side relationship; ensuring team accessibility; and collaborating with clients to nurture our collective success.

#####