*e*Research

Third Party Research **June 27, 2018**

Investors, Like Yogis, Must Find Their Focus

***e*Research Corporation** is pleased to provide an article courtesy of **Investing Daily**.

The article is reproduced below, beginning on the next page, or go to it directly at the following link:
https://www.investingdaily.com/42542/investors-like-yogis-need-the-right-gaze-point

You can also visit the **Investing Daily** website at the link below:
https://www.investingdaily.com/

***e*Research** 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

InvestingDaily
Profitable advice for smart people

Investors, Like Yogis, Must Find Their Focus

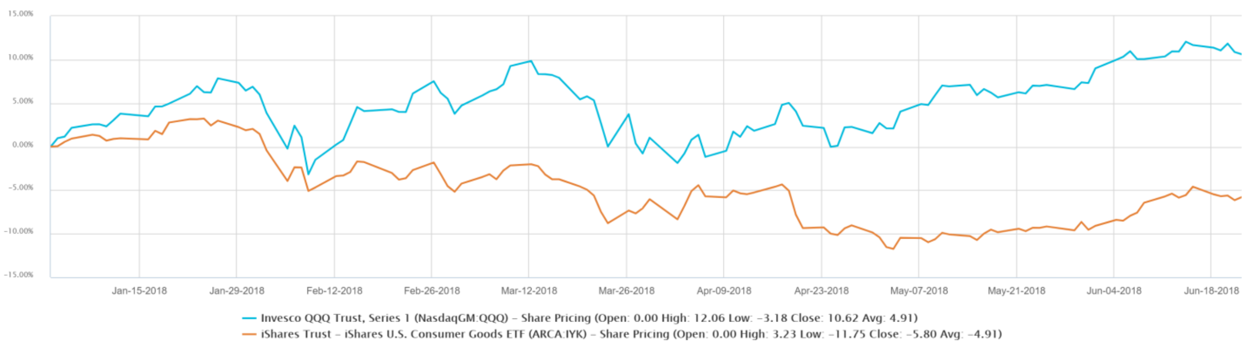
By Linda McDonough (bio at end)
June 27, 2018

Wake up, yogis and investors alike! It is time to shift your drishti. In yoga, the term drishti (pronounced drish-dee) refers to your vision or gaze point. It is essential to striking the right balance. If you are in an introspective pose, like a forward bend, your drishti would be to your inner knee or thigh. If you are in an expansive pose, like camel, your drishti would be to the horizon.

I find a steady drishti most helpful when attempting a balancing pose like tree or galavasana (look it up, trust me, it is a challenge). One of the best tricks for keeping balance is to gaze at something, anything, that is not moving. The idea is that by focusing your attention on one single point, you can harness your energy and "see" the world more clearly.

Many of these yoga practices are quite helpful in navigating today's topsy-turvy stock market. Think of it as Zen and the Art of Portfolio Maintenance. For example, despite the S&P 500 at one point being up 3% year-to-date, it is currently down 1.5%, a trend that could quickly wipe out the year's meager gains in short order. These moves could knock even the most grounded investor off-balance.

Even within the market averages, there is a wide divergence in performance on a sector basis. The Consumer Goods ETF (IYK) (**orange** line in the graph below) is down 6%, yet the Invesco Tech ETF (QQQ) (**blue** line) is up a resounding 12.5%.



Knowing your drishti and sticking to it will help block out the noise.

Industrials and multinational corporations are seeing their stocks tossed about by news on tariffs, raw material prices, and escalating rhetoric on trade wars. On top of all the political and economic turmoil, there is the issue of how the 2017 tax cut impacts earnings growth in future years. Most stocks are priced based on some valuation related to earnings growth. The timeline of this future growth helps determine where on the horizon investors are focusing their gaze.

The stock market always wants to know: What have you done for me lately? Last year's terrific earnings growth means nothing if there is a speed-bump hitting numbers next year. Conversely, investors are often willing to pay higher valuations for stocks that are expected to see outsized jumps in earnings going forward.

When we hit the middle of the fiscal year (June), investors start shifting sites out to the next fiscal year. This shift means they will put more weight on fiscal 2019 estimates when calculating stock valuations.

Adjusting for future growth this year is unusually tricky. The majority of U.S.-based companies are enjoying an unusual lift in earning per share in fiscal 2018 versus 2017. While part of this growth is due to improvements in operating metrics (i.e., increasing sales and better profits), the lower tax rate due to the tax cut passed earlier this year is responsible for a large part of the jump.

Because the tax rates for many companies show a dramatic drop in fiscal 2018 but stay at that same low rate in fiscal 2019, it will be more difficult for companies to show accelerating earnings growth in fiscal 2019. Note the critical word here is accelerating growth.

Earnings will still grow, but many investors like to see the rate of earnings growth rising. The jury is out on how investors will view this temporary slowing of the earnings growth rate.

Among my favorite metrics, I am adding greater emphasis these days to EBITDA (earnings before interest, taxes, depreciation, and amortization), largely because this earnings number weeds out tax rate changes. EBITDA is not perfect, but it is widely available and helps me ignore the “noise” from the tax cut.

This practice is more art than science. As with even the most experienced yogi or investor, I lose my balance once in a while. But the recovery is quicker when I stay focused.

#####

Website: https://www.investingdaily.com/

See About the Analyst below.

About the Analyst

Linda McDonough is a veteran hedge fund analyst who loves to break down company financial statements and identify market inefficiencies to uncover big opportunities. She believes in a boots-on-the-ground approach that includes surveying customers, interviewing company executives, or doing whatever it takes to see what others don’t. She’s now brought her experience as a hedge fund analyst to subscribers of her *Profit Catalyst Alert* service. Her system identifies small- and mid-cap stocks that are about to move due to catalytic events that few others can identify…until it’s too late. These events often times result in massive gains for her followers.