

More Earnings on the Way

The S&P 500 Index had a muted week but then generated some excitement on Friday with earnings from banks such as JP Morgan and Wells Fargo, an energy sector merger announcement with Chevron and Anadarko Petroleum, and Disney's announcement of its direct-to-consumer media service. The S&P 500 Index closed the week +0.5% higher.

The building calendar of company earnings releases continues in the coming week with more reports in the financial and other sectors. Twenty-nine of the 500 companies have reported earnings quarter-to-date.

The minutes of the March Fed meeting released this week showed that Fed has no immediate plans to return to a Hawkish posture. This sets a constructive backdrop to help balance risks such as slowing economic growth. The market has rebounded strongly from the fourth quarter 2018 decline. Friday's S&P 500 closing level of 2,907.4 is +16.0% YTD and not far below its closing high of 2,940.9 in September of 2018.

Factors impacting market direction over the next few weeks should be the impact of post-earnings stock moves in larger companies in the indices, the progress of U.S.—China trade negotiations, and data points reflecting the health of the economy.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	0.5%	16.0%	International Stocks (MSCI ex-US)	0.3%	13.3%
Dow Jones Industrial Average	0.0%	13.2%	Aggregate Bond Index	-0.1%	1.6%
NASDAQ 100	0.7%	20.5%	U.S. Dollar Index	-0.4%	0.0%
Russell 2000 (Small Cap Index)	0.1%	17.5%	WTI Crude Oil	1.3%	40.7%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Price-to-Earnings Ratio

We discussed [Earnings Per Share](#) in last week's commentary. This week we use the EPS data point as a quick valuation check with the Price-to-Earnings ratio, or PE ratio. The PE ratio is calculated by dividing a stock's price by its earnings per share. For example, a \$25 per share stock price with earnings per share of \$2.50 for the year would have a 10x PE Ratio.

PE ratios can either be trailing or forward looking. Trailing PE is based on the previous four quarters of earnings and forward PE is based on the upcoming four quarters of expected earnings. Using the original example, the \$25 stock that earned \$2.50 per share over the past four quarters has a 10x trailing PE ratio. If that company is expected to grow its earnings 10% to \$2.75 over the next four quarters its forward PE ratio is 9.1x.

PE ratios can be used to compare the valuation of a stock to its own history (cheaper or more expensive than its historical average), its peer companies (PE of Coca-Cola v. Pepsi, or Verizon v. AT&T), or to the market (the forward PE of the S&P 500 is currently 17.0x for 2019). PE ratios have nuance when used for valuation decisions and we will cover "relative valuation" in next week's commentary.

Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

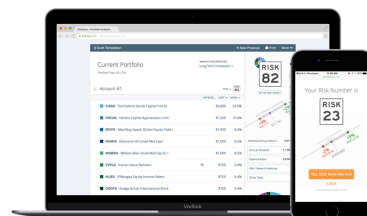
One Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 10%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and won-

dering why they are not able to achieve the returns they want.

We work with our clients to identify the risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Take our complimentary [risk analysis questionnaire](#).



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is Certified Plan Fiduciary Adviser (CPFA) and an endurance athlete and three-time IRONMAN finisher.



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Jeff has 9 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).

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