First Fiduciary Investment Counsel, Inc.

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2018 Ends With Significant Market Sell-Off

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HIGHLIGHTS

- *First Fiduciary initiates position in PPG Industries, a high-quality and shareholder-friendly coatings company.*
- *U.S. markets experienced the worst month of December since the Great Depression.*

Two thousand eighteen ended on a sour note, as the U.S. stock market had one of the worst months of December ever, falling over 9%. While no sector was immune to losses, the financial and energy sectors led the way as the largest detractors. OPEC's decision to cut oil production by 1.2 million barrels per day, less than expected, caused an 8% sell-off in the price of oil, hurting the outlook for energy stocks. Banks underperformed on fears the credit cycle was coming to an end sooner than expected in large part due to the Federal Reserve's hawkish behavior. While 4Q's sell-off was frustrating, we, at First Fiduciary, take some solace in the relative outperformance of our portfolios of high-quality, dividend-paying companies. Our commitment to downside protection through the ownership of cash-generating, shareholder-friendly companies often pays off the most in times of significant market turmoil, and the second half of 2018 was no different.

During the 4th quarter, First Fiduciary initiated a position in PPG Industries, Inc. (PPG), the world's second largest coatings company. We believe the company's recent underperformance is due to a failed hostile takeover of Akzo Nobel coupled with cyclical weakness in important end markets, including oil & gas and automotive. We believe this has created an attractive opportunity in a high quality company with a management team that has a long history of shareholder-friendly behavior. Also in the quarter, we sold three positions: MetLife (MET), Goldman Sachs (GS), and General Electric (GE). We became concerned that MET's products no longer resonate with today's customers, threatening the sustainability of the company's aggressive capital return policy. As for Goldman Sachs, we believe the 1Malaysia Development Berhad (1MDB) scandal could potentially result in sanctions against the company as well as a large monetary fine, which may impede future growth opportunities. Finally, we exited General Electric after news that recently hired CEO John Flannery was abruptly forced out.

As with prior market sell-offs, many pundits today are calling for an imminent recession. This fear of a recession coupled with the rise of passive index investing has led to many "babies getting thrown out with the bathwater" as investors indiscriminately sell their holdings in a mad dash for the exits. Additionally, the rise of quantitative trading algorithms has resulted in increasingly violent swings in both directions. In these times of intense market dislocation, investors with a disciplined process in place can often take advantage of profitable opportunities. As such, we continue to sharpen our pencils on new ideas in search of high quality companies trading at attractive valuations. Since our investment process is focused on owning companies that can thrive in any economic backdrop, we don't need to make a short-term call on the business cycle. Instead, we're able to take a longer-term view and find companies we want to own for the next three to five years. We are more optimistic now than at the same time last year, and the simple reason is that stocks are, by and large, cheaper today.