RAI WEALTH

Commentary

The Markets

Are investors more like tigers or African wild dogs?

It appears investors – retail and institutional – have become rather like predators. They patiently stalk shares, waiting for a dip, and then they strike – buying stocks when prices fall.

Consider last week. *Barron's* described it like this: "The Dow traded down nearly 80 points on Monday, 170 points on Tuesday, and 170 points on Wednesday, but each time the blue-chip benchmark finished off its lows. That was followed by the Dow's 187-point rally on Thursday, as everyone bought the dips."

Investors' remarkable behavior led the publication to speculate, "What if higher volatility, instead of scaring investors away from the stock market, brings them in? In that case, this bull market could still have a long way to go."

Buying low and selling high is a foundational principle of investing. However, it remains to be seen how successful buying dips will prove to be in a market that some believe is too highly valued.

One measure of valuation is the 12-month trailing price-to-earnings (P/E) ratio, which tracks a company's current share price against its earnings during the previous 12 months. Last week, *FactSet* reported the trailing P/E ratio for the Standard & Poor's 500 Index was 22. The five-year average is 18.2, and the 10-year average is 16.9. Some prefer to look at forward P/E ratios, which compare share price to expected future earnings. The forward P/E ratio for the Standard & Poor's 500 Index was 18, while the five-year average is 15.7, and the 10-year average is 14.1.

Only time will tell whether investors' dip buying will more closely resemble the hunts of tigers or those of African wild dogs. When hunting prey, tigers are successful 5 to 10 percent of the time. African wild dogs take down prey 85 percent of the time, according to *BBC's Discover Wildlife*.

As always, much will depend on the investments selected.

Data as of 11/17/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.1%	15.2%	17.9%	8.1%	13.2%	6.1%
Dow Jones Global ex-U.S.	-0.4	20.8	24.5	3.9	5.6	-0.4
10-year Treasury Note (Yield Only)	2.4	NA	2.3	2.3	1.6	4.1
Gold (per ounce)	0.0	10.8	4.7	2.8	-5.8	5.1
Bloomberg Commodity Index	-0.6	-0.9	4.9	-9.6	-9.5	-7.0
DJ Equity All REIT Total Return Index	-0.6	9.3	16.2	8.3	11.0	7.5

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

AND NOW FOR SOMETHING COMPLETELY DIFFERENT. Online sales aren't the only threat to traditional brick-and-mortar retailers. Direct-to-consumer (DTC – also abbreviated as D2C) companies have been implementing a brand new business model. They're skipping retailers and selling direct to consumers. Early entries in the DTC space targeted product areas dominated by big, established companies that have been enjoying high profit margins. DTC firms often are offering better price points and far superior customer service, reports *Forbes*.

In the future, some may remember the emergence of DTC as the onset of the razor wars. In 2010, the world's largest razor blade company had 70 percent market share in the United States. Its gross margins (sales minus the cost of the product) were as high as 60 percent, reported *The Economist.* Soon after, the company found itself competing with two subscription razor blade services offering no cost trials and money-back guarantees. The DTC business model proved to be attractive and the market share of the world's largest maker of razor blades has fallen to 54 percent.

Will DTC have staying power? *The Economist* wrote:

"…a growing number of startups are reimagining everyday household items – from pants and socks to toothbrushes and cookware. These [DTC] companies bypass conventional retailers and bring their products straight to customers via their online stores. They began several years ago to catch the attention of venture-capital (VC) firms, which have poured in more than $3bn since 2012. But the success of some [DTC] firms has attracted a lot of wannabes, making this a crowded market and leaving some wondering whether the boom has reached its limits."

While analysts ponder the viability of the new business model, the behemoths of consumer goods and retailing have begun buying DTC firms. Consequently, we may see a steady stream of new entrants to the market.

We hope you have a wonderful Thanksgiving celebration!

Weekly Focus – Think About It

"Intelligence alone does not get us where we need to go or even necessarily where we want to go. For that, the human creature must exercise harder-won capacities of wisdom, and wise action."
--*Krista Tippett, American journalist and author*

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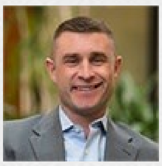

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