Helping you manage your own investments

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THE Blue Harbinger

THINKER

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Overview:

Exciting Long-Term Opportunities: New Market Paradigm

by Mark Hines

Everyone "says" they want to "buy low" until the market sells off. For example, no one wanted to buy in 2020 after the pandemic hit, no one wanted to buy in 2008-2009 when the Great Financial Crisis hit, and no one wanted to buy in 2000-2001 when the Tech Bubble was bursting. In retrospect, those were all great long-term buying opportunities, even if you didn't exactly time the bottom.

Similarly, in 2021 many people decried they were waiting for the market to sell off so they could "buy low," but now that the market is significantly lower—they're too afraid to buy anything.

In this report, we describe current market conditions, and share our strong opinion on how investors should be playing the current market.

We also share updated performance and holdings for our Income Equity and Disciplined Growth portfolios, a few top investment ideas, and then we conclude with a few important takeaways and links to more investment opportunities that we hope you will find useful.

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The Blue Harbinger THINKER is a private monthly newsletter.

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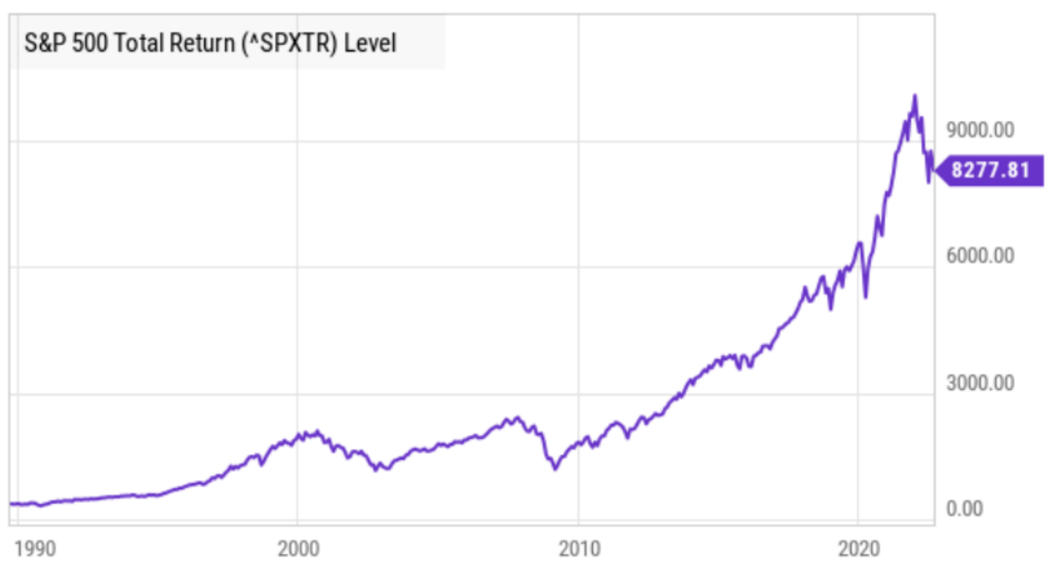
WHAT IS HAPPENING IN THE MARKET?

You've likely heard a lot of stories about why the market is down, but the biggest reason is simply the high inflation caused by extremely loose monetary and fiscal policies (e.g. low interest rates, extended unemployment benefits, stimulus checks and of course supply chain issues caused by mandatory covid lockdowns) and now compounded by central banks around the world hiking interest rates to battle the inflation they created (which has the unfortunate side effect of slowing down the economy even more). Certainly high energy prices (in part due to the war in Europe) have compounded inflation issues, but that is not the main reason. The main reason the market is down is because of the chain of responses by government regulators to Covid. And rather than being mad about this, be grateful they've given you another opportunity to buy lower.

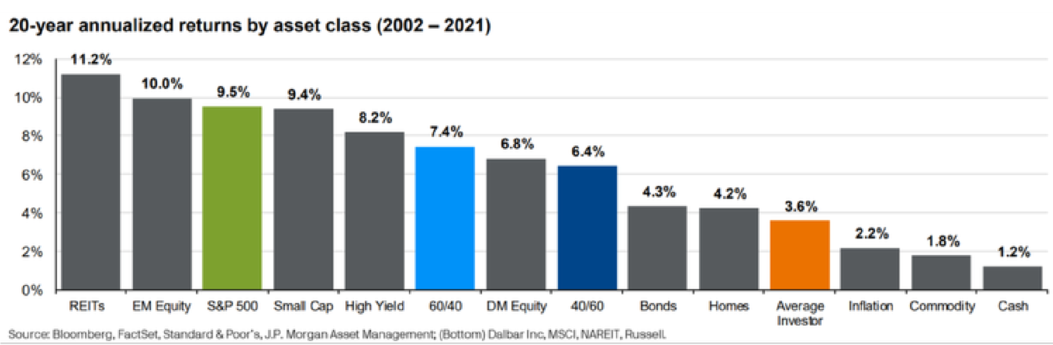


For perspective, here (above) is a look at S&P 500 performance (since the 1989) so you can see how the market responded to each of the crises described above (i.e. Tech Bubble bursting, the Great Financial Crisis, the Covid Pandemic and now the subsequent "Inflation Crisis").

GOAL-FOCUSED INVESTING:

As a professional investor and student of the markets, one of the most frustrating things to read about was all the “I told you so’s” from the high-growth investors (such as the now infamous ARKK ETF) during the 2021 pandemic bubble, and now all the “I told you so’s” from the ultra-conservative investors this year as the market has sold off. It generally falls on deaf ears to explain that both groups have different investment goals, timeframes and tolerance for volatility, but the reality is if you are a long-term growth investor—the ARKK ETF is still a decent long-term strategy, and if you are a long-term growth investor—a conservative dividend-focused strategy is still a terrible idea for you. And the opposite is true is you are a conservative income-focused investor.

Rather, disciplined long-term goal-focused investing has been a winning strategy throughout history, and we believe strongly it will prove to be this time too. Don’t go chasing the latest investment fad or strategy. Be smart. Stay focused on your long-term goals so you don’t end up like the “average investor” in the following chart.



INCOME EQUITY PORTFOLIO:

Blue Harbinger’s Income Equity Portfolio has significantly outperformed the market (S&P 500) this year, and it also continues to own companies that pay above average (and growing) dividends. Here is a look at the strategy's monthly performance through August (its down 2.1% this year, while the S&P 500 is down 16.8% over the same period).

Income Equity Portfolio	YTD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022	-2.1%	-1.3%	-2.2%	3.7%	-1.8%	4.6%	-8.7%	8.8%	-4.2%				
2021	21.4%	-0.4%	5.0%	4.4%	4.4%	0.8%	1.5%	-1.2%	1.7%	-8.4%	9.8%	-1.5%	4.8%
2020	-5.4%	-2.4%	-10.1%	-26.2%	18.0%	3.2%	0.7%	4.3%	2.3%	-2.9%	-1.9%	13.3%	3.5%
2019	28.0%	11.4%	2.3%	1.4%	2.7%	-5.3%	5.0%	0.9%	-0.4%	3.2%	1.5%	-0.4%	3.3%
2018	-7.7%	2.7%	-3.7%	-1.9%	2.1%	3.1%	1.0%	3.6%	2.3%	-1.6%	-7.0%	2.4%	-10.0%
2017	16.0%	1.6%	3.7%	-0.3%	1.6%	-0.8%	2.6%	3.0%	-1.7%	3.2%	0.7%	0.3%	1.2%
2016	27.4%	0.7%	0.5%	9.5%	1.0%	2.4%	1.2%	3.5%	1.4%	0.0%	0.0%	1.5%	3.0%

As a reminder, the objective of this strategy is: Steady income and long-term capital appreciation by investing in blue-chip companies with earnings growth potential, attractive valuations (multiple expansion opportunity) and prudent capital allocation (including reinvesting in the business, dividends, share repurchase and strong balance sheet management). You can view all of the current holdings, weights, market caps, sectors, "buy under" prices and more in this real-time portfolio tracking sheet.

DISCIPLINED GROWTH PORTFOLIO:

Blue Harbinger's Disciplined Growth Portfolio outperformed the S&P 500 in August (it was down only 0.8%, whereas the S&P 500 was down 4.1% for the month, total returns), and the strategy is down significantly this year as long-term growth stocks have struggled mightily in the short-term in the face of the Fed's highly aggressive inflation-fighting interest rate hikes.

Disciplined Growth Portfolio	YTD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022	-32.1%	-13.0%	-3.4%	-1.6%	-16.8%	-2.3%	-8.4%	11.1%	-0.8%				
2021	-5.0%	4.2%	0.7%	-7.4%	5.9%	-5.0%	13.3%	-1.5%	3.7%	-7.8%	8.7%	-10.0%	-6.9%
2020	53.0%	3.1%	-5.6%	-15.8%	14.5%	7.9%	5.9%	7.4%	11.6%	-1.3%	-1.8%	15.5%	6.2%
2019	51.6%	12.8%	5.9%	1.1%	8.2%	-2.3%	7.6%	2.2%	-4.8%	-1.5%	2.5%	8.2%	4.0%
2018	-3.6%	2.9%	-3.9%	-2.3%	0.4%	3.8%	1.1%	2.4%	5.2%	1.7%	-6.9%	2.9%	-9.8%
2017	24.9%	2.8%	4.0%	1.1%	1.7%	1.5%	1.0%	1.5%	0.4%	2.0%	3.5%	1.6%	1.4%
2016	11.3%	-4.8%	-1.2%	7.1%	3.5%	0.4%	0.9%	3.2%	0.7%	0.8%	-1.6%	0.8%	1.3%
2015	-0.9%	-4.6%	4.7%	-2.3%	-1.2%	0.2%	-0.7%	3.1%	-6.8%	0.3%	6.9%	2.5%	-2.2%
2014	18.2%	0.1%	4.7%	-0.3%	0.0%	2.6%	1.3%	-2.5%	3.7%	0.7%	2.8%	3.0%	1.1%
2013	37.8%	8.1%	1.6%	2.6%	4.1%	0.8%	-1.3%	5.2%	-1.4%	3.4%	2.0%	3.6%	4.1%
2012	8.2%					-2.5%	2.9%	2.5%	1.5%	4.0%	-0.8%	0.5%	-0.2%

The good news is simply that this has created an increasingly attractive buy-and-hold opportunity for long-term investors. Remember that whole thing about “buy low?” We don’t know if the bottom is in (it may not be), but we do believe strongly that over the long-term the market is going higher and the stocks we hold in this portfolio will lead the way.

As a reminder, the objective of this strategy is: Long-term capital appreciation and compounding by investing in leading high-growth businesses with large total addressable market opportunities. The businesses owned in this strategy may forego current earnings and/or dividends by instead allocating capital to attractive long-term growth opportunities and in order to maximize future shareholder wealth.

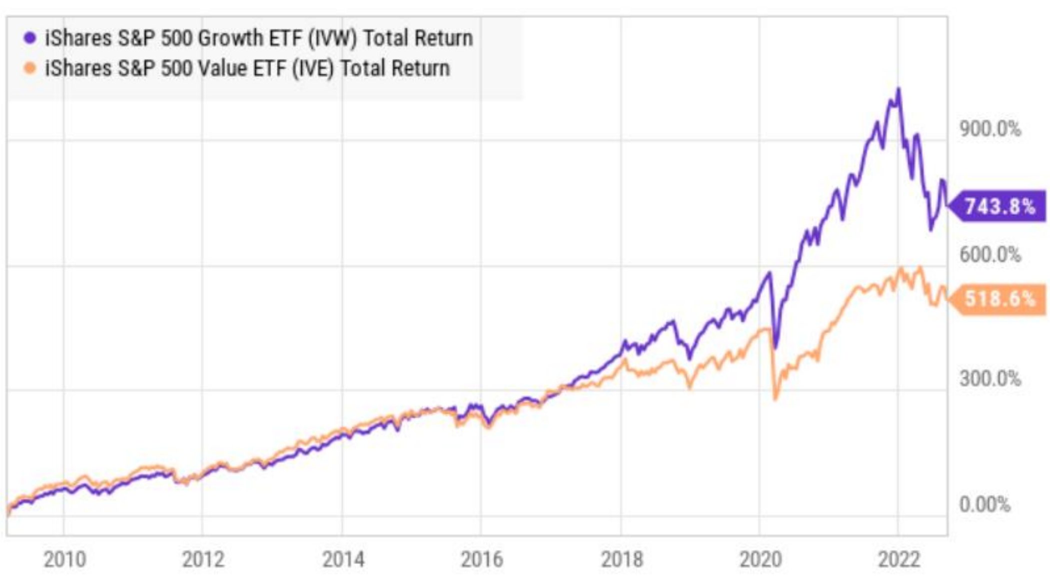
You can view the Disciplined Growth Portfolio here.

The bottom line here is simply that you should be investing according to your own personal long-term goals (and also ignoring the massive quantity of “noise” put out by the media that can cause you to panic and make bad decisions—it’s the reason the “average investor” in our earlier chart is so ugly). We believe strongly in the “portfolio method,” whereby building a prudently concentrated portfolio of investments that are consistent with your long-term goals can reduce some (certainly not all) of the short-term volatility and risks, but still keep your long-term returns high (whether that be returns through price appreciation or high-income distributions or a combination of both).

NEW MARKET PARADIGM:

Some of the most dangerous words in investing is “this time is different.” That was the thought that caused many investors to panic and miss out on the pandemic rebound; the Great Financial Crisis Rebound and the Tech Bubble Bursting Rebound. Investors got so caught up in the short-term news stories and panic that they took their money out of the stock market at exactly the wrong time.

One narrative we have been hearing about over and over again for roughly a half a decade now is that growth stocks have been outperforming value stocks for too long and that it is a bubble that is about to burst. Well, in 2022 we've started to see some of that relative valuation bubble burst as growth stocks have significantly underperformed value thereby reversing a long trend.



Further, it's not hard to argue that the trend has more room to unwind (i.e. value could keep outperforming growth stocks significantly). The reality is that investors pounding the table about this valuation discrepancy have been wrong for many years in a row, and they may or may not be wrong for many more years in the future.

The fear story this time around is that the Fed's abrupt interest rate policy shift this year is bringing value stocks back in vogue and crushing the growth stocks that were artificially propped up for so long by artificially low interest rates. The truth is, we don't really know how much higher interest rates are going to go. It will become increasingly intolerable from a political standpoint as we head into the next election cycles for the fed to keep hurting the economy with its inflation-fighting interest rate hikes. What's more, if we get a few more months of positive inflation data points (meaning if inflation keeps falling) the Fed could abruptly stop (and even reverse) its interest rate hikes. This would be very good for the market, and very good for growth stocks in particular.

Because of the uncertainty, we believe in constructing a prudently diversified portfolio whereby the holdings consist of opportunities across both growth and value sectors and industries. And that holds stocks that can be more and less impacted by inflation and monetary/fiscal policy—which is essentially impossible to predict and can actually change on a dime). Basically, we believe predicting the macroeconomics is essentially impossible (even the best economists in the world get it wrong just as often as they get it right) and we instead prefer to focus on picking good business (stocks) which can be a much more fruitful endeavor.

TOP IDEAS (INCOME EQUITIES):

For example, as you can see in our portfolio tracking sheet, the following securities are rated “Top Buys” at the time of this report’s release:

MEDTRONIC (MDT):

Medtronic is the clear industry leader in a wide variety of medical devices. It has paid a dividend for over 40 years in a row, it has increased its dividend for the last eight years in a row, the dividend is very safe and the current dividend yield is an attractive 3.2%. The shares also trade at an attractively discounted price relative to the company’s long-term value, especially considering its wide moat business will continue to protect it from competitors. If you are looking for steady growing income on sale, Medtronic is worth considering. We own shares.

BAXTER INTERNATIONAL (BAX):

Baxter is another healthcare equipment company that offers an attractive growing dividend (2.1% current yield) and an attractive price. More specifically, Baxter has been facing near-term supply chain challenges that have pulled earnings estimates down in 2022 and into 2023, but this company’s competitive advantages (it is the clear industry leader in most of its product lines) will help ensure long-term strength. It has paid a dividend for over 20 years (and raised it in each of the last 5 years), and the share price has attractive long-term upside. If you are looking to buy a strong dividend grower at a discounted price, consider Baxter. We own shares.

INTEL (INTC)

Intel has gotten a lot of bad press as compared to higher growth chip makers (like Nvidia and AMD). However, Intel remains an extremely profitable business that currently offers a compelling 4.7% dividend yield (it has paid a dividend for nearly 30 years in a row, and increased it in each of the last seven) and an attractively discounted price. Once all the recent chip industry smoke clears (recent China bans and the layover from the CHIPS for America Act) these shares are going higher (they're worth a lot more than the current price). We own shares.

TOP IDEAS (DISCIPLINED GROWTH):

SALESFORCE (CRM)

Salesforce is a highly profitable rapidly growing "customer relationship management" business that trades at far too low of a price in our view. It has inappropriately sold off hard this year in sympathy with other high growth stocks, however unlike other high growth stocks—Salesforce is actually profitable and very attractive (it has the ability to ramp profits dramatically anytime it wants, but instead prefers to focus on revenue growth). If you are looking for blue chip growth at an attractive price, consider adding a few shares of Salesforce to your portfolio. We own shares.

META PLATFORMS (META)

Besides the company's focus shift to the metaverse, Facebook is still a super high margin money-printing-machine, and the shares are on sales as the price has fallen dramatically with other high growth stocks this year. And the company's pivot to the metaverse may also prove lucrative in the distant future. We own shares.

NVIDIA (NVDA)

Despite the recent ban on sales to China, semiconductor company Nvidia has tremendous growth in the US and the rest of the world. The shares have simply fallen too hard relative to the value. From video games to data centers to autonomous vehicles and the Internet of Things, Nvidia is the leader and has so much long-term growth potential. We own shares.

BLOCK (SQ)

Despite slightly lower growth in the latest quarterly update, growth remains high and the total addressable market opportunity is massive for this digital payments company. The valuation has come down significantly, and if you can handle the volatility—Block has a lot of long-term upside from here. We own shares.

TAKEAWAYS

If you are frustrated about the market this year, don't let your emotions get the best of you. We cannot predict the market's short-term moves (no one can), but short-term volatility is the price you pay for the best long-term returns. This year's sell off is a gift to long-term buy-and-hold investors. Don't panic and hide your money under your mattress; stay smart, stay invested according to your goals.

For example, if you are an income-focused investor, you may take some solace in this year's market declines because perhaps your strategy hasn't declined as much (and it keeps paying you those big steady dividends—nice!). But if you are a long-term growth investor, just know big declines are par for the course. They're the price you pay (volatility) for the best long-term returns (compound long-term growth is the eighth wonder of the world). This year's declines should be recognized for what they actually are—a tremendous opportunity for long-term buy-and-hold investors

Be smart—don't get distracted by media fearmongering—stay focused on your long-term goals—it's a winning strategy.

APPENDIX: MORE IDEAS

To view all of our most recent growth stock investment ideas and insights, click here. And to view all of our most recent income-investment ideas, click here. And view our latest portfolio holdings here.