

Q2 2018 Insights

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July 6th, 2018



Q2 2018 Insights

- Positives for the Second Half of 2018
- Potential Risks for the Second Half of 2018
- The Yield Curve
- Inflation and Employment
- Stock Market Returns by Sector for 2018
- Pawleys Growth Fund Buy-Outs
- *invest right, live right™*



Positives for the Second Half of 2018

- Strengthening dollar improves our purchasing power abroad, which could offset price increases on imports caused by tariffs
- Leading Economic Indicators continue to rise in the U.S.
- The Fed remains committed to using a steady hand in achieving their dual mandate
- Price of oil should remain moderate or even decrease since Saudi Arabia has agreed to increase output

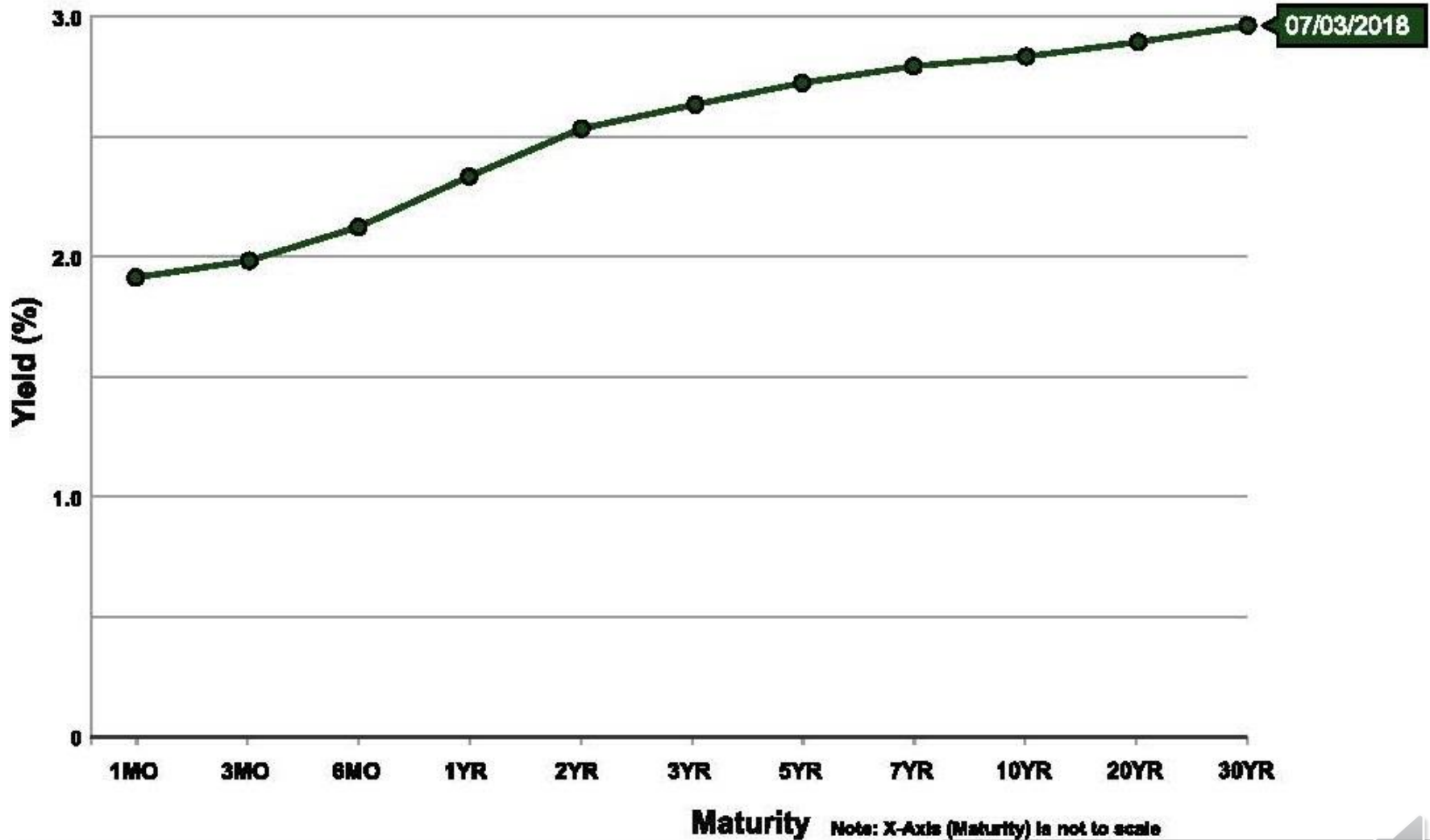


Potential Risks for the Second Half of 2018

- Strengthening dollar erodes purchasing power of foreign consumers, which could lead to decreased U.S. exports and hurt future earnings
- Trade and tariff tensions could escalate and create cross-border animosity between nations, hurting U.S. corporations
- Uncertainty around mid-term elections could cause market volatility or stagnation
- Even a slight slowdown in Q2 earnings could cause stock market weakness – wide dispersion of returns across sectors
- Strength seen across the globe earlier this year is waning in some countries



The Yield Curve



Inflation and Employment

- Inflation, as measured by core personal consumption, has hit the Fed's target of 2%
- As long as prices don't rise too quickly, the Fed should continue with its moderate approach to raising short-term interest rates
- The unemployment rate of 4% is at historically low levels



Stock Market Returns by Sector for 2018

Sector	2018 year-to-date Return
Consumer Discretionary	11.26%
Consumer Staples	-7.71%
Energy	6.67%
Financials	-1.18%
Health Care	4.05%
Industrials	-2.77%
Information Technology	9.98%
Materials	-2.78%
Telecommunication	-5.84%
Utilities	2.10%

Source: Morningstar. The quality of our research relies on the accuracy of data and information provided by companies and third parties. Pawleys does not guarantee completeness or accuracy. Future results cannot be guaranteed



Pawleys Growth Fund Buy-Outs

Pawleys Growth Fund Buy-Outs

Company	Symbol	Initial Entry	Entry Price	Buy-out declared	Buy-out Price	Premium	Acquirer
Par Pharmaceutical	PRX	1/3/2011	\$38.78	7/16/2012	\$50.00	29%	TPG
Mediware Information Systems Inc.	MEDW	1/3/2012	\$12.73	9/12/2012	\$22.00	73%	Thoma Bravo
Questcor Pharmaceuticals Inc.	QCOR	1/2/2014	\$54.48	4/7/2014	\$86.10	58%	Mallinckrodt
Sapient	SAPE	1/2/2014	\$17.36	11/2/2014	\$25.00	44%	Publicis
PartnerRe Ltd.	PRE	1/2/2015	\$114.36	8/3/2015	\$143.50	25%	Exor
Keurig Green Mountain, Inc.	GMCR	1/2/2015	\$75.54	12/7/2015	\$92.00	22%	JAB Holding
Alliance Fiber Optic Products Inc.	AFOP	1/1/2013	\$12.02	4/7/2016	\$18.50	54%	Corning
Brocade Communications Systems, Inc.	BRCD	1/2/2014	\$8.87	11/2/2016	\$12.75	44%	Broadcom
Whole Foods Market, Inc.	WFM	1/3/2012	\$34.82	6/16/2017	\$42.00	21%	Amazon
Express Scripts Holding	ESRX	1/2/2018	\$74.99	3/8/2018	tbd		Cigna

Vertical integrations may spur on additional M&A activity for the foreseeable future



“Success is no accident. It is hard work, perseverance, learning, studying, sacrifice and most of all, love what you are doing or learning to do.”

- Pele



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