Invest with Yen

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Review of First Quarter of 2018

The US stock market started out the year well; but ran out of steam after the first month. The Dow went down 3% and NASDAQ went up 2% for the quarter. Our composite portfolio did better than both and finished the quarter gaining 7%. We had several extraordinary gains for the quarter: IMGN went up 64%; INFN went up 72%; and MU went up 27%. Our top ten holdings at the end of the quarter, in order, are DVAX (www.dynavax.com), BRK (www.berkshirehathaway.com), AMD (www.amd.com), IMGN (www.immunogen.com), MU (www.micron.com), PONAX, INFN (www.infinera.com), IBB (iShare Nasdaq Biotech ETF), SPY (S&P 500 ETF), and SGEN (www.seattlegenetics.com). During the quarter, I added shares of ATRS, CHK and NBR and sold or donated IMGN, MU, NVDA, and PONDX.

Comments on the Overall Market Situation

Usually the presidents of the United States have had very limited impact on the short-term performance of the overall market. Donald Trump is not a typical US president. From my point of view, the US stock market went up after Trump's election mostly due to the anticipation of a large corporate tax cut. In December 2017, Wall Street received this Christmas gift. The upward momentum continued in January 2018, although the market has already priced in all the benefit of the corporate tax cut by the end of 2017. Therefore, the market was looking for a reason to correct itself. It has now found two reasons: One is the continued policy of the Federal Reserve to raise interest rates, and the other is that Trump wants to start a trade war. Since both these reasons will continue to play out in this calendar year and maybe in following years, I tend to believe that we will not see another 20+% per year stock market return in the foreseeable future.

What should we do with this kind of uncertainty in the market? First, I recommend moving money out of bond funds until we see a halt on the growth of the interest rate. Second, I believe that we should continue to invest in stocks that are either long-term stable under a trade war situation (check out DIS, our stock pick of the quarter) or maybe it is time to look at investing in gold again. For an easy way to invest in gold, I recommend IAU, the ishare ETF of gold managed by Black Rock. IAU has several good characteristics in comparison to other gold ETFs:

(1) Large Total Net Asset value with physical gold in vaults; currently at more than $11 Billion.
(2) High Liquidity - High enough daily trading volume, currently more than $100 million per day.
(3) Low Management Fee – Expense ratio at 0.25%, lowest among peers.

Noticeable News/Events with Our Top Ten Stocks and Recent Picks in the Past Quarter

DVAX: As predicted, the share price of DVAX fluctuated around $17 and settled at $19.65 at the end of quarter largely due to minor good news from DVAX's cancer drug trials.

AMD: The share price of AMD continues to tread water in the first quarter. Although briefly reached a quarterly high of $13.74 on January 31, 2018, the price of AMD dropped back down to $10.05 at the end of the quarter. With the uncertainty of the overall market, I am now not sure when AMD will reach my target of $15 per share again this year.

IMGN: Share prices of IMGN continued to climb in this quarter because of the good clinical trial data of mirvetuximab soravtansine to treat platinum-resistant ovarian cancer. It briefly set another 52-week high at $13.41 on March 26 before settling down to finish the quarter at $10.52. If the drug tests continue to bring good news as the company anticipates, IMGN could reach $20 within a year.

MU: The price of MU continued to rise in the past quarter, reaching over $60 before settling back to close the quarter at $52.14. MU reported another terrific quarter, with the trailing P/E at 8.2 and the forward P/E projected to be 5.9. Its stock price seems to be held back only due to the uncertainty caused by a potential trade war between US and China.

PONAX/PONDX: As I described in the last newsletter, bond funds such as PONDX have not performed well in the era of raising interest rates. Partially because of this reason, PIMCO has decided to consolidate its bond funds to reduce management costs. PONDX (PIMCO Class D Bond Fund) has been absorbed into PONAX (PIMCO Class A Bond Fund). This quarter, I have reduced my position in PONDX/PONAX. I plan to use the proceeds to buy real estate in the next few months.

INFN: INFN finally came back strong in the last quarter. After dropping from a five-year high of over $24 in August 2015 to about $6 in this January, INFN finally had a quarterly report that beat the Street expectation. The price of INFN finished this quarter strong at $10.86. As a result, INFN regained a position in our top-ten holdings.

Stock Pick of the Quarter

Our stock-pick this quarter is the Walt Disney Company (www.thewaltdisneycompany.com and DIS on NYSE).

I confess that like nearly every person on earth, I love to visit Disney World and Disney Land. However, just like most people, I have not bought my first share of DIS stock yet. However, after searching for a stock that is decidedly undervalued not likely to be boycotted by any country in a world-wide trade war, and will provide steady income should a trade war depress the stock market, I came to the conclusion that DIS is the stock to own at this time.

The Walt Disney Company is an entertainment company. The Company operates in four business segments: Media Networks, Parks and Resorts, Studio Entertainment, and Consumer Products & Interactive Media. The company owns and leverages well-known brands, ranging from Mickey Mouse and 'Frozen' to ESPN and ABC. Disney acquired the animated movie producer Pixar Animation Studios in 2006, comic book and movie producer Marvel Entertainment in 2010 'Star Wars' originator, Lucasfilm, in 2012, and currently 20th Century Fox. All these four acquisitions have excellent long-term revenue-generating potentials. I could also imagine very profitable dedicated theme parks based each of these entities in cities of multiple continents in the future.

Financially, DIS is a terrific money-generator: Each year, DIS produces more than $11 billion profit after tax. With the new and lower corporate tax rate, DIS's earning per share (EPS) is projected to grow more than 23% next year. Afterwards, DIS is projected to grow its EPS by about 10% annually for the next five years. I believe that DIS is currently undervalued with trailing P/E of 14.3 and forward P/E of 13.4. Even with a trade war between US and China, I believe that the Chinese would rather stop importing cars from Ford or GM over not visiting the newly opened Disney World in Shanghai.

DIS closed at $100.44 on March 29, 2018. I have assigned DIS a value rating of 2 (out of 5 with 1 being of the best value) and a risk rating of 2 (out of 5 with 1 being the least risky).

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