This article is authored by MOI Global instructor Glenn Surowiec, portfolio manager at GDS Investments, based in West Chester, Pennsylvania.

"History doesn't repeat itself, but it often rhymes."
–Attributed to Mark Twain

"To be yourself in a world that is constantly trying to change you is the greatest accomplishment."
–Ralph Waldo Emerson

Here in West Chester, life at the Surowiec home has never been as exciting and action-packed. In August, we were very happy to welcome our exchange student from Madrid, Ana. Ana makes four teenagers in the house… need I say more?

Ana will be with us through June and we are so excited and fortunate to host her. Her presence and participation in our family life is invaluable and we learn something new from her each and every day. During the holiday season, Ana's family visited the United States and stayed with us. That experience was a fantastic reminder that the best times are spent with family and friends in conversation, sharing meals, and simply passing time together.

On the business side, we find ourselves at the dawn of a new decade. At these pivot points in time we may be forgiven for thinking that we are immune from the ebb and flow of history. We may feel that the mistakes and downturns of the 20th Century cannot occur in our own time. We may believe that we have nothing to learn from the past.

Indeed, judging by the dozens of stories about the stratospheric heights to which the Dow Jones Industrial Average, the Nasdaq Composite Index, and the S&P 500 Index soared this year, investors in 2019 also acted as if history is no guide at all.

As Mr. Clemens is purported to have noted, though, while history may not repeat itself, one generation should expect its experiences to rhyme with those of prior generations. In that vein, prudence and a healthy respect for history's rhymes dictate that we look askance at last year's meteoric rise in the equity markets. After all, if Mr. Clemens was correct about history, we should strive to accomplish what Mr. Emerson suggested . . . a voice of investment reason in a world where many other investors are acting unreasonably.

When we consider the gains in equities over the last twelve months, value investors are comfortably reminded of the late-1990's and early-2000's. Most readers will recall that era when most of the top ten companies in the S&P 500 were tech companies and the S&P 500, unbeknownst to the average investor in it, had essentially become a quasi-concentrated technology fund. Then, those companies were trading at valuations which bore no relationship to their companies' future growth prospects. Indeed, it was not uncommon for large tech companies which led that bull market to trade at P/E ratios of 50:1 and higher.

Today, seven of the top ten companies in terms of market capitalization are Internet-related businesses. In that set of companies, we find **Apple, Inc. (NASDAQ: AAPL)** which, last

January, was trading at a 13:1 price to earnings ratio. At the end of 2019, that ratio was 25:1 for what is essentially the same company!* Indeed, Apple and **Microsoft Corporation (NASDAQ: MSFT)** alone were responsible for approximately half of last year's gain in the S&P 500.

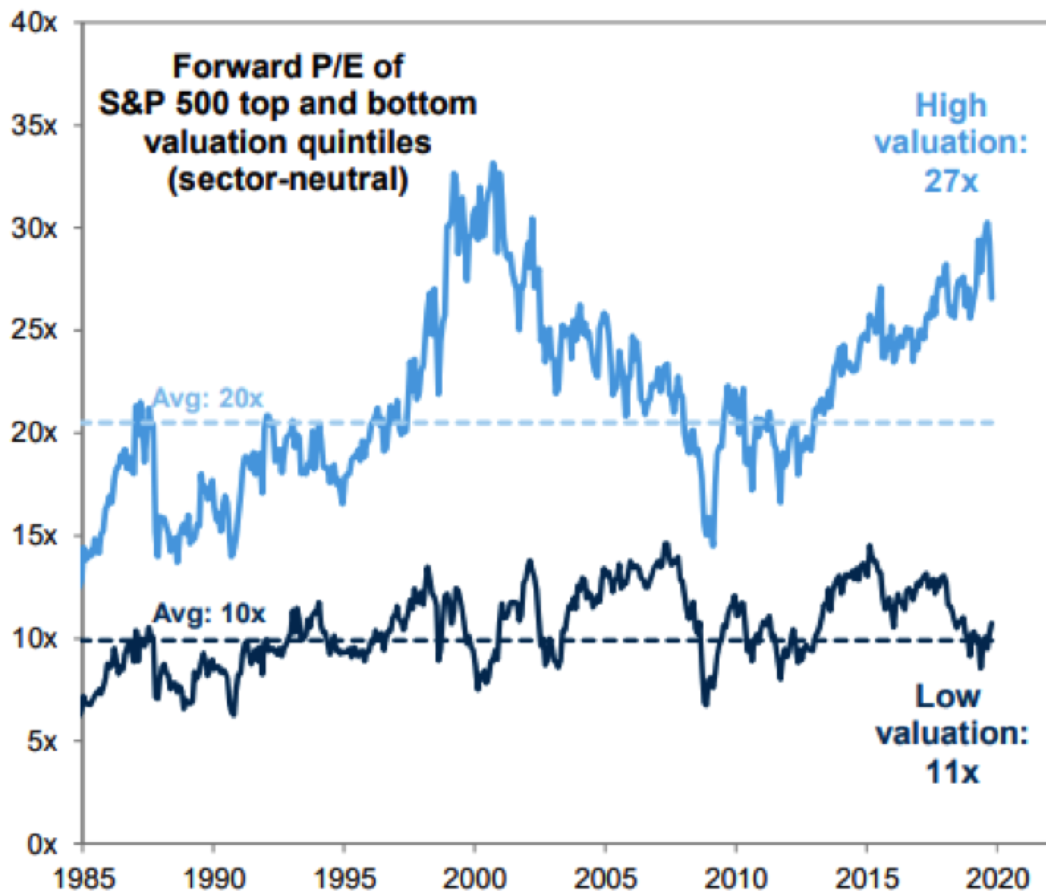
**Note: Largely due to record buy-backs of its own stock, Analysts expect that Apple's earnings-per-share in FY 2019 will be flat as compared to FY 2018.*

Of course, everyone remembers what happened to overvalued tech stocks after the dot com bubble burst between 2000 and 2002. The ten-year period ending in 2008 was a "lost" decade for index investors (i.e. $1,000.00 invested in the S&P 500 in 1999 would have been worth $900.00 in 2008). Late-1990's investors were chasing valuations without any regard to underlying fundamentals or, for that matter, the law of gravity. Those investors who were late to the party and last-in on the bull market ended up with significant losses in the sell-off or, potentially, fared worse if they remained invested.

Today, low unemployment and plenty of excess cash (resulting from changes in tax law and aggressive monetary policy) have contributed to overheated and overvalued share prices for companies which discount large future growth (also referred to as "momentum" companies). We expect the effect of those factors to wane and for mean reversion to be the rule over the next decade. Companies trading above their historic mean valuation should return to sensible levels. Of course, for that to happen, share prices must fall and, as was the case in the early 2000's, investors who are ill-prepared will lose.

As shown on the following chart, there is a significant gap between high-valuation companies and those with lower valuations. Current and future members of the GDS Investments family who understand our investment philosophy will not be surprised to learn that we will remain focused on the latter class of companies. We have no intention of chasing overvalued stocks which are dominating broader indices. We have no intention of suffering losses in the coming (and inevitable) sell-off in "momentum" companies. We have no intention of ignoring the rhymes of history or being anything other than ourselves in a world which is trying to change us.

Patience and common sense always win in the long-term.



One undervalued company featured in the GDS Investments portfolio is **First Solar, Inc. (NASDAQ: FSLR)**. Renewable energies continue to overcome the historical barriers which have kept us tied to carbon-based energy sources. Developments in energy storage technology are increasing the reliability of solar- and wind-generated energy and, now, solar energy generation is economically competitive with traditional power generation. Recent reports suggest that, by mid-century, renewable sources could comprise nearly one-half of the world's energy supply and as much as 60% of that energy will come from solar power.

First Solar is the market leader within the solar power sector. While other companies are still operating with losses and burdensome debt, First Solar is both profitable and maintains a large net cash position. The company's Series 6 photovoltaic modules are largely sold-out through the second quarter of 2021 and the company is adding manufacturing capacity which will allow it to produce modules capable of producing almost 7 gigawatts of power.

We are very excited about the future of renewable energy and, in particular, the leadership role which First Solar will play.

In late 2019, we initiated a new position in **Twitter, Inc. (NYSE: TWTR)**. The share price for the President's favorite form of communication fell by more than 20% after the company reported a small shortfall in third quarter results. That shortfall, however, was largely due to a one-time software-related occurrence.

When the opportunity presented itself, we considered the fact that Twitter's monetizable daily active user base grew by 17% in 2019. That growth is broad-based, as each of the company's top markets saw double-digit expansion. Based on past performance, we expect revenue increases to accelerate as Twitter continues to evolve and its usage (and mDAU) continue to grow.

We also started a new position in **Zillow Group, Inc. (NASDAQ: ZG)**, the leading operator of US real estate marketplaces and home-related portals. Very interestingly, online searches for "Zillow" are more popular than searches for "real estate," and the brand may well end up synonymous for its product (much like Kleenex or Band-Aid).

Today, Zillow is providing consumers with a new way to sell their home. To eliminate traditional hassles and uncertainty, Zillow is buying and selling homes directly from and to consumers while also providing adjacent home-related services such as mortgages and title insurance. For those homebuyers who still want to sell to another owner-occupant, Zillow will recommend a "Best of Zillow" agent from whom Zillow can earn a referral fee. Initial interest in this home-buying service is far greater than Zillow expected, and the company is accelerating its roll-out in new markets.

Zillow is in the enviable position of having the massive opportunity to transform the real estate industry, an industry saddled with headaches. That transformation could be as impactful as the way other industries have been disrupted over the past couple of decades. We initiated a position at $30.00 per share and still feel comfortable owning after its recent appreciation (now $45.00 per share) because of the secular tailwinds outlined above.

We continued to hold our position in **BOX Inc. (NYSE: BOX)**. The company, which focuses on cloud content management and its role as a file-sharing service provider, did experience a revenue deceleration between 2016/2017 (when revenue increased 32% year-over-year) and 2019 (when revenue increased just 13% over 2018). Activist investor Starboard Value recently purchased 7.5% of the outstanding shares of Box and will very likely force major changes in the company's business strategy. Starboard was previously involved with **Papa Johns International, Inc. (NASDAQ: PZZA)**, **eBay, Inc. (NASDAQ: EBAY)**, and **MGM Resorts International (NASDAQ: MGM)**.

We expect that it will apply at Box the same pressure which it is using at those companies to force major changes in strategy and, perhaps, composition of the Board of Directors. Starboard should work to create value for investors whether through increased profitability at Box or by forcing changes which will help position Box for acquisition. In any event, we intend to hold this position and take advantage of the potential upside in the company's

share price.

Likewise, GDS Investments is continuing its long-standing position in **Alibaba Group Holding Limited (NYSE: BABA)**. That company remains the best opportunity for western investors to access the growth in the rapidly expanding consumer spending, cloud computing, and financial technology Chinese markets.

Alibaba operates the world's largest mobile and online payment platform, Ant Financial (formerly Alipay). Ant Financial offers financing, payment, wealth management, and insurance and has more than 900,000,000 active users in China alone. The company's cloud computing services saw remarkable 64% revenue growth last quarter and remains a leader with an ever-expanding global presence with 19 data centers worldwide.

We believe that there is significant potential upside for Alibaba and anticipate holding our position in the company for some time as its growth initiatives come to fruition.

Another long-term GDS Investments position is **QUALCOMM Incorporated (NASDAQ: QCOM)**. With its conflicts with Apple, Inc. in the company's rearview mirror, Qualcomm is looking forward to double-digit annual revenue growth in its microchip business over the next several years. As it experiences that revenue growth, Qualcomm should be less reliant upon licensing-related income.

The most exciting part of owning Qualcomm is the huge technological lead which the company holds over its competitors in the development of 5G. Qualcomm's 5G profit model consists of generating more revenue per device as 5G intersects with other industries such as automobiles, manufacturing, healthcare, energy, and gaming.

Qualcomm should continue its balanced approach to capital allocation while maintaining its strong investment grade credit rating. Since 2016, the company spent $17B on research & development, $26B on stock repurchases (at highly accretive prices), $10B in dividends paid and $3B in mergers & acquisitions. Expect to see similar discipline in the future.

Also worthy of mention is our position in **American Airlines Group, Inc. (NASDAQ: AAL)**. Over the past couple of years, that company saw its share price descend by approximately 50%. During 2019, of course, the entire airline industry felt the impact of the grounding of the 737 MAX aircraft which, along with a dispute with mechanics unions, caused American to cancel 7,800 flights. Those factors are contributing to costs which the company estimates will equal approximately 10% of its entire operating profit.

Those costs, however, are one-time events which should abate during 2020 and beyond. As cost pressures are relieved, American should take-off from the near 52-week lows at which it is currently trading.

Finally, we provide an update on **General Electric Company (NYSE: GE)**. Recall that GE ended 2018 with $55B of industrial net debt. The company will use the lions' share of approximately $38B of cash sources between 2019 and early 2020 to further de-lever and de-risk its balance sheet.

Equally encouraging are the developments being made on GE's operational side. At a recent Morgan Stanley conference, CEO Larry Culp commented upon improvements in the power business on both the margin and demand side. Specifically, Mr. Culp noted that GE saw orders perk up modestly while regions such as China are converting from coal or nuclear power to gas. Through the third quarter of 2019, GE's gas power orders of 12.8 gigawatts represented a significant increase over the 7.2 gigawatts which customers ordered in the same period in 2018. Furthermore, fixed costs were down 9% in that segment which should facilitate higher margins in future earnings periods.

We remain very excited about the fundamental changes which Mr. Culp and his team are implementing at General Electric. Many "green shoots" are emerging, and the turnaround of this iconic American company is proceeding nicely but will take time. We expect that GDS Investments will retain its position in GE as that progress continues.

Each of these positions represents an opportunity to capture the generational disparity between value and momentum stocks. We are convinced that equity markets are at a major inflection point which will determine success or failure over the next decade. Just like in the late-1990s, those investors who have the patience, conviction, and emotional intelligence to own what is currently out of favor should be handsomely rewarded in time. Those who continue to pour money into momentum stocks will likely face another "lost" decade.

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