MONTHLY NEWSLETTER

Market Report – Titan Investment Management LLC

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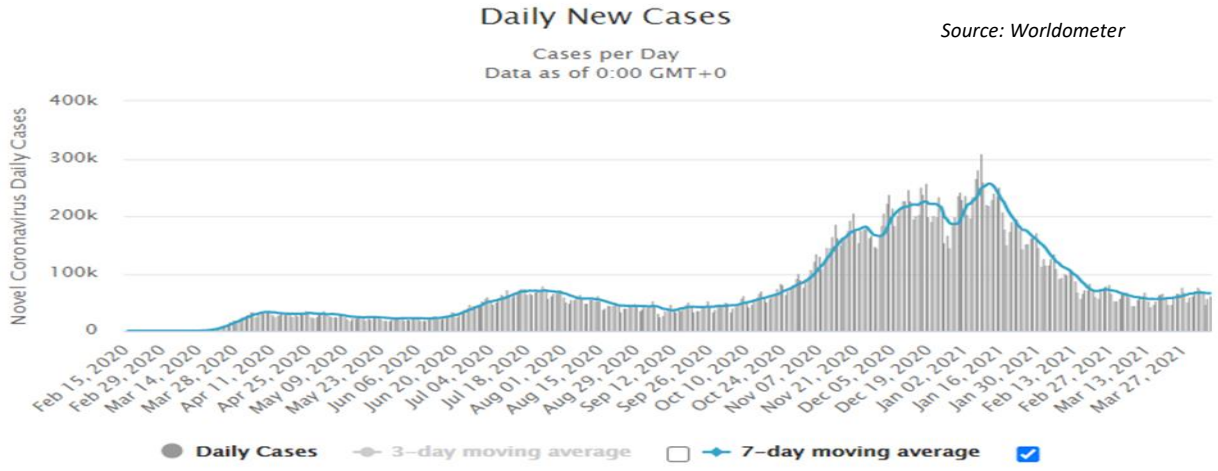
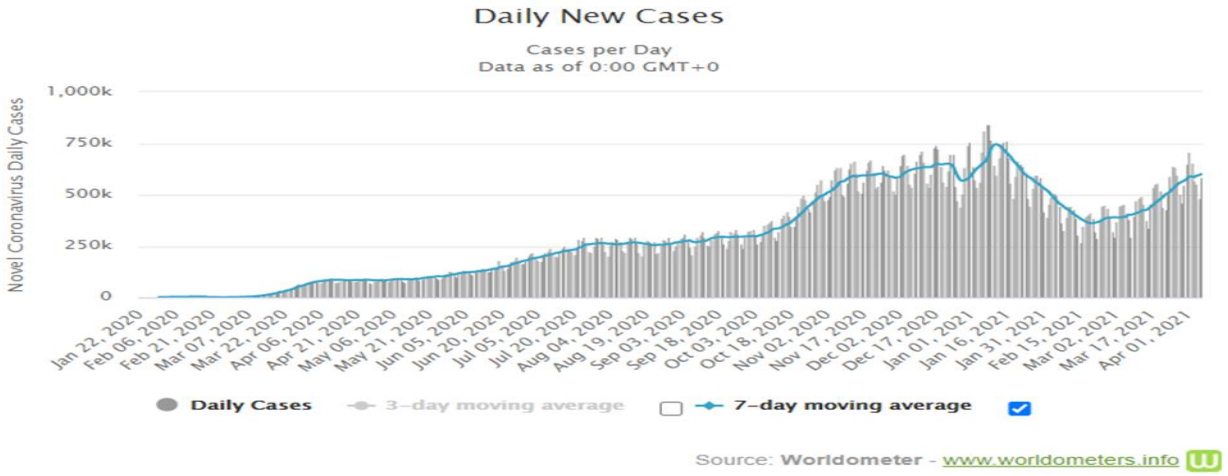
COVID Update:

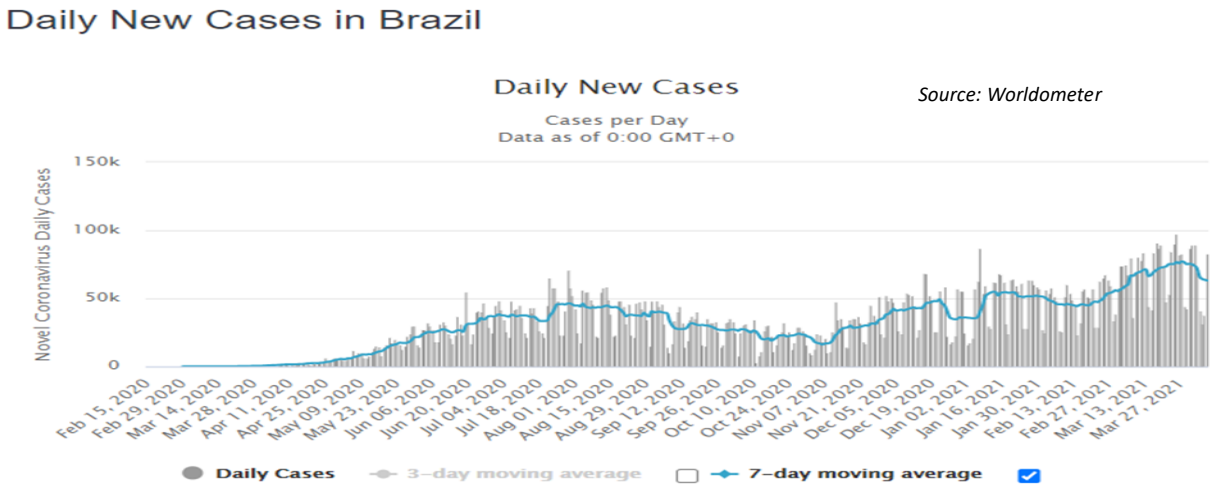
The US has largely plateaued since the beginning of March with new COVID cases. However, the rest of the world has not and this is quickly turning into an issue in emerging economies.



Source: Worldometer



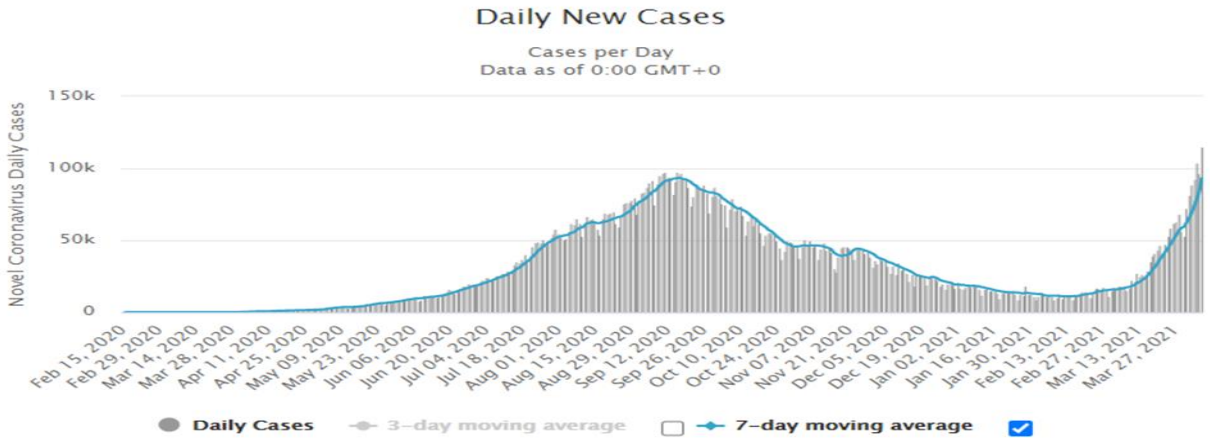
India and Brazil, arguably the two largest emerging economies have been hit hard as of late.



Source: Worldometer

Daily New Cases in India

Source: Worldometer

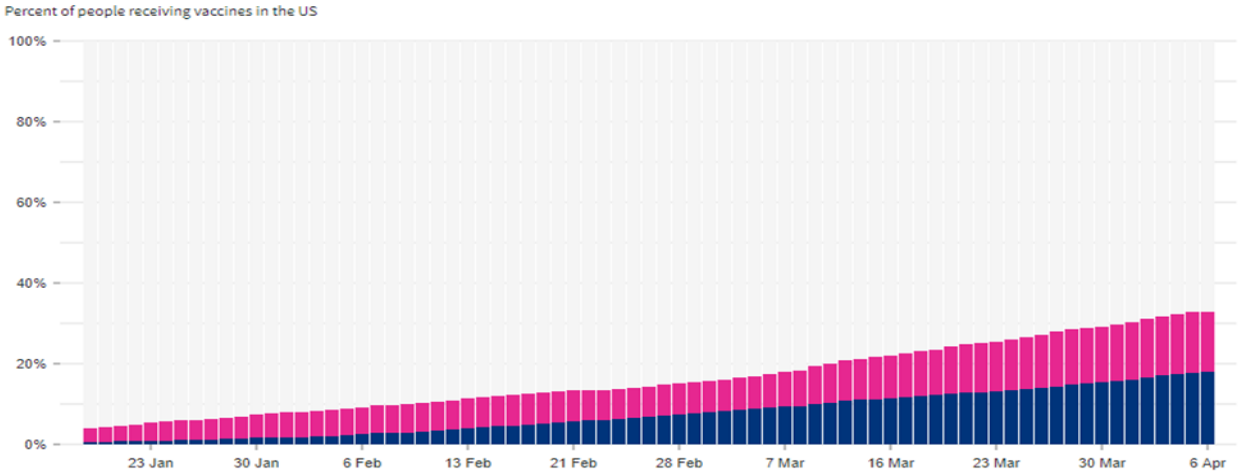


The 2nd wave that is currently taking place in India is largely unexplained from an objective point. However, reports are surfacing the Indian populace is simply COVID fatigued and have begun gathering in mass for weddings and celebrations. In addition, the Indian government is currently going through an election cycle and political gatherings are also taking place.

Some have blamed the new variants that have emerged (specifically in the UK), but the Indian government continues to deny this cause. Fortunately deaths are not rising at nearly the rate of infections even factoring in a 10-day lag. Nonetheless, India is currently serving as a reminder that COVID remains a reality and the world needs to remain steadfast and not fall into a sense of COVID fatigue.

At least **108,301,234** people or **32%** of the population have received at least one dose.

Overall, **58,747,870** people or **17%** of the population have been fully vaccinated.



Sources: Centers for Disease Control and Prevention. see more

Almost a third of the US populace has received at least one dose of the vaccine. The bulk of those vaccinated have been age cohorts older than 65. The combination of falling new cases and rising vaccines being administered has resulted in US deaths falling back to a range that is near the bottom for COVID. Thus, the economy opening back up and a sense of normalcy returning to the country seems warranted.

This ultimately leads to one reasons why Titan Investments is currently overweight the US relative to the rest of the world. The US compared to emerging economies as well as Europe is making significant progress in getting the virus under control and returning to life, pre-COVID.

The Great Rotation Continued:

Following up from last month's return comparison, some of the resulting price change over the past month highlights reality coming back into focus.

Equity Sector	2020 Return	YTD Return (Mar. 5)	YTD Return (Apr. 6)
Communication Services	26.91%	8.73%	13.33%
Consumer Discretionary	29.63%	-2.46%	8.41%
Consumer Staples	10.15%	-4.08%	3.05%
Energy	-32.51%	39.71%	30.62%
Financials	-1.67%	14.35%	18.13%
Health Care	13.34%	-0.37%	3.27%
Industrials	10.96%	5.52%	13.01%
Information Technology	43.61%	-0.82%	6.12%
Materials	20.52%	4.03%	11.88%
Real Estate	-2.11%	0.77%	11.68%
Utilities	0.57%	-4.82%	4.48%

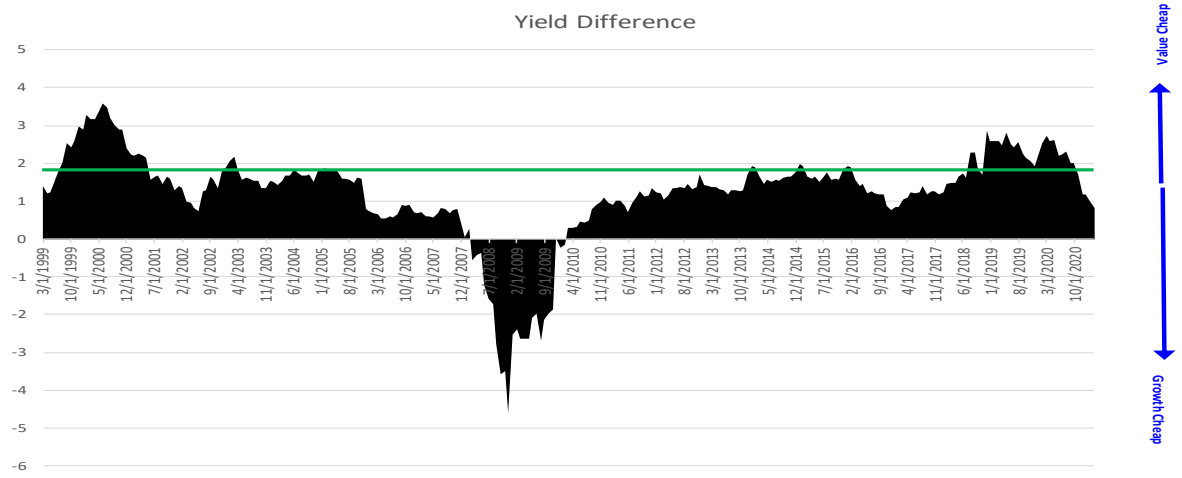
Energy was the worst performing sector of the past month despite being the best performer YTD. In addition, sectors highly exposed to the economy reopening continued to plow ahead with Consumer Discretionary (Retail) and Real Estate making up ground. However, the recovery in real estate needs to be taken lightly as any sort of economic growth could be met with higher interest rates and limit the overall upside for the sector.

Despite the volatility witnessed at the sector level YTD, a more macro opportunity begins to emerge when looking at quantifiable equity factors. Two major factors are Value and Growth. Value investing tends to rely on multiples such as price to equity and price to book while Growth investing tends to rely on top line growth and margin expansion. In addition, Value equities are expected to have a higher positive correlation with the business cycle, thus a reopening of the economy is expected to benefit Value stocks more than Growth stocks. This expectation has rang true YTD as Value stocks (SVX) have returned 12.60% while Growth stocks (SGX) has returned 5.60%. While a difference of 7.00% might sound trivial in the grand scheme of things, it is a historic anomaly.

YTD Return (Apr. 6)	SVX Return	SGX Return	Delta
2021	12.60%	5.60%	7.00%
2020	(23.46%)	(11.49%)	(11.49%)
2019	15.05%	16.89%	(1.84%)
2018	(4.51%)	0.20%	(4.71%)
2017	3.09%	8.39%	(5.30%)
2016	2.01%	1.49%	0.52%
2015	0.15%	2.93%	(2.78%)
2014	2.32%	0.64%	1.68%
2013	11.13%	8.01%	3.12%
2012	11.31%	12.26%	0.95%

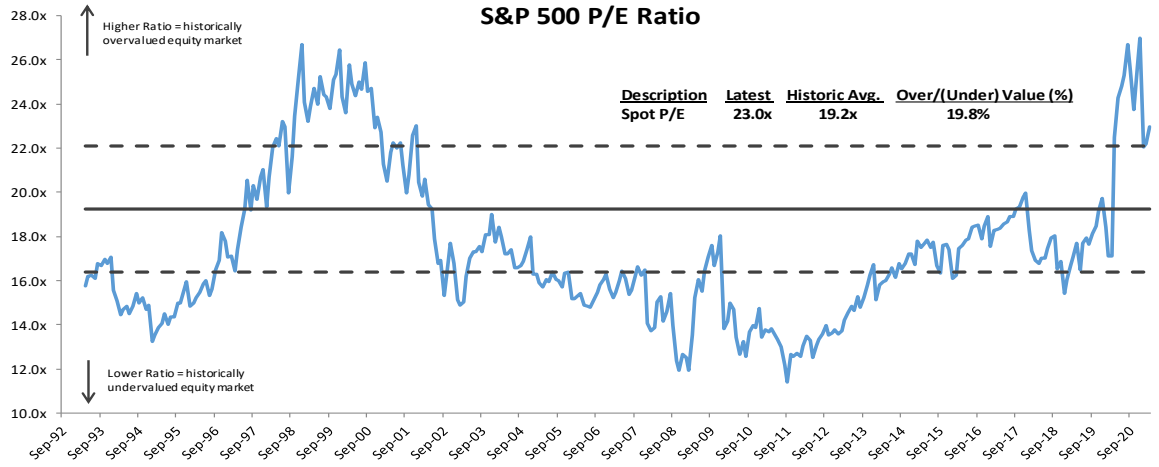
At no point over the past ten years has Value outperformed Growth to the degree it has thus far in 2021. In addition, going all the way back to 2014 and 2013 and analyzing the rest of the year yields two scenarios where Growth outperformed Value for the rest of the year.

Prices and their resulting returns can be hard to extrapolate, especially when it is not a clear apples to apples comparison. However, when comparing Value to Growth based off the traditional value metric of earnings yield (E/P) paints a very clear picture of the current environment.



Value is clearly overvalued (no pun intended) from a historic multiple, especially when in comparison to Growth. However, this expectation is quickly getting ahead of itself. The current earnings yield difference between Value and Growth is 0.81 whereas the 5YR average is 1.75. In addition, if the average is taken back 20 years to encapsulate 2008, the average is 1.06. Thus, even incorporating one of the most historically undervalued periods for Value stocks still yields an environment where Growth is cheaper.

The valuation of Value becomes even more sensitive to the market when considering the overall multiple of the S&P 500. Currently, the S&P 500 P/E is 23.0x, a near 20% premium compared to a 5YR average. A growing portion of this premium can be explained by the premiums exhibited by certain Value sectors. Energy and Industrials are currently trading at a 60.9% and 60.2% premium to their historic averages. Growth sectors such as Technology are only trading at a 37.8% premium.



Lastly it cannot be stated enough that expectations matter. Meeting the market's expectation bar in terms of earnings is incredibly important to the resulting appreciation and/or depreciation of an equity.

	Energy	Materials	Financials	Industrials	Cons. Discr.	Technology	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index	
S&P weight	2.8%	2.7%	11.3%	8.9%	12.4%	26.6%	10.9%	2.5%	13.0%	6.1%	2.7%	100.0%	Weight
Russell Growth weight	0.1%	0.8%	1.9%	4.7%	16.5%	44.2%	11.9%	1.7%	13.7%	4.5%	0.0%	100.0%	
Russell Value weight	5.1%	4.8%	20.6%	13.9%	7.8%	9.5%	9.2%	4.3%	12.6%	7.1%	5.0%	100.0%	
QTD	30.9	9.1	16.0	11.4	3.1	2.0	8.1	9.0	3.2	1.1	2.8	6.2	Return (%)
YTD	30.9	9.1	16.0	11.4	3.1	2.0	8.1	9.0	3.2	1.1	2.8	6.2	
Since market peak (February 2020)	-4.7	33.7	12.8	19.8	29.2	30.9	25.4	0.0	14.6	9.2	-4.9	19.6	
Since market low (March 2020)	116.2	109.2	97.5	105.5	89.2	90.1	75.7	60.6	59.0	43.8	47.8	80.7	
Beta to S&P 500	1.54	1.18	1.23	1.16	1.11	1.06	0.98*	0.74	0.78	0.61	0.30	1.00	β
Correl. to Treas. yields	0.55	0.50	0.66	0.55	0.33	0.38	0.50*	0.17	0.23	0.18	0.03	0.47	ρ
Foreign % of sales	51.3	56.8	30.1	43.8	34.0	58.2	44.7	-	38.5	32.7	-	42.9	%
NTM earnings growth	682.2%	28.8%	21.8%	70.6%	40.3%	16.0%	14.2%	4.0%	11.3%	6.9%	4.2%	22.2%	EPS
20-yr avg.	72.2%	16.7%	21.9%	12.0%	15.8%	13.7%	9.3%*	7.4%**	9.2%	8.2%	4.4%	11.2%	
Forward P/E ratio	22.2x	20.1x	15.0x	25.8x	35.7x	25.9x	23.0x	21.8x	16.2x	20.6x	19.0x	21.9x	P/E
20-yr avg.	13.8x	14.6x	12.4x	16.1x	18.6x	18.8x	19.1x*	15.9x	15.6x	16.9x	14.6x	15.4x	
Buyback yield	0.3%	0.8%	1.7%	0.7%	0.1%	2.1%	1.9%	-1.0%	0.8%	0.7%	-0.8%	1.2%	Bbk
20-yr avg.	1.6%	0.7%	0.1%	2.1%	2.3%	2.8%	1.2%	-1.1%	1.9%	1.8%	-1.6%	1.6%	
Dividend yield	4.5%	1.9%	1.9%	1.5%	0.7%	1.0%	1.0%	2.9%	1.7%	2.7%	3.3%	1.5%	Div
20-yr avg.	2.6%	2.5%	2.3%	2.2%	1.4%	1.1%	1.4%*	4.2%	1.9%	2.8%	3.9%	2.1%	

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. All calculations are cumulative total return, not annualized, including dividends for the stated period. Since market peak represents period from February 19, 2020 to March 31, 2021. Since market low represents period from March 23, 2020 to March 31, 2021. Correlation to Treasury yields are trailing 2-year monthly correlations between S&P 500 sector price returns and 10-year Treasury yield movements. Foreign percent of sales is from Standard & Poor's, S&P 500 2018: Global Sales report as of August 2019. Real Estate and Comm. Services foreign sales are not included due to lack of data availability. Next 12 months (NTM) earnings growth is the percent change in next 12-months earnings estimates compared to last 12-months earnings provided by brokers. Forward P/E ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Buyback yield is net of share issuance and is calculated as last 12-months net buybacks divided by market cap. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Beta calculations are based on 10-years of monthly price returns for the S&P 500 and its sub-indices. *Communication Services (formerly Telecom) averages and beta are based on 5-years of backdested data by JPMAM. **Real estate NTM earnings growth is a 15-year average due to data availability. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of March 31, 2021.

J.P.Morgan
Asset Management

For sectors such as Energy to even achieve a 60.9% premium, earnings are expected to grow nearly 700%. Technology on the other hand is only expected to grow 16.0% to justify a 37.8% premium. In other words, Technology (Growth) has a much lower bar to meet and much higher price potential compared to Energy (Value).

Titan Investments is currently overweight Technology to take advantage of the trends highlighted above. Nonetheless, more technology will be looked to be added to further take advantage of this mispricing and historic opportunity being afforded by the market.

A Rule in Dividends

Both brokerage houses and custodians have preached a place for dividend paying stocks for the following reasons:

- Payback on your Initial Investment
- A Steady Stream of Income
- Dividends Reign in Unnecessary Spending
- Dividend Yield Limits Downside Momentum

In addition, most investors seem to carry the assumption that a stock priced at $100/share that pays a $1 dividend lock in a 1% return. This could not be further from the truth and warrants an explanation.

Company ABC			
Balance Sheet			
Assets		Liabilities & Equity	
Real Estate	$100,000	Debt	$75,000
Machinery	$25,000		
Cash	$25,000	Equity	$75,000
Share Price			
Shares Outstanding		1,000	
Equity		$75,000	
Price Per Share		**$75.00**	

Company ABC annouces it will pay shareholders a $10 per share dividend.

Company ABC			
Balance Sheet			
Assets		Liabilities & Equity	
Real Estate	$100,000	Debt	$75,000
Machinery	$25,000		
Cash	$15,000	Equity	$65,000
Share Price			
Shares Outstanding		1,000	
Equity		$65,000	
Price Per Share		**$65.00**	

At inception Company ABC has $150,000 in Assets, $75,000 Debt, and $75,000 Equity. This is a simple, yet effective balance sheet to show how a dividend alters the share price.

Company ABC announces a $10 dividend per share. This will cause cash to fall $10,000 ($10 X 1,000) and the resulting equity to also fall $10,000. On a per share basis (1,000) this $10,000 dividend results in the share falling $10/share to $65.

The reasons listed above for owning dividends are simply shortsighted for the following reasons:

1) Payback on your Initial Investment.
    a. Payback periods are simply the time it takes to recoup your initial investment. However, in an extreme case where a firm is worth $100/share and they declare a $100 dividend the share price is now worth $0. In other words a checking account that earned 0.01% was a better investment.
2) Dividends Reign in Unnecessary Spending.
    a. How one gauges "unnecessary spending," is more art than science. However, the iShares Dividend Select ETF (DVY) highlights a host of firms that exhibit more leverage than the S&P 500. Thus, firms that are taking on less debt are being accused of "unnecessary spending?"

Intraday | Holdings | Performance | Characteristics | Attribution | VaR | Scenarios | Tracking Error/Volatility

Main View | Summary | Cash Flows | Liquidity Risk | Key Rates

ISHARES SELECT DIVIDE vs SPDR S&P 500 by None in USD As of 04/07/21

Date Trend

Name	P/E			Debt/EBITDA		
	Port	Bmrk	+/-	Port	Bmrk	+/-
ISHARES SELECT DIVIDEND ETF ...	19.09	32.88	-13.79	5.22	4.39	0.83

Source: Bloomberg

3) Dividend Yields Limit Downside Momentum
    a. Most investors appreciate any sort of investment that limits the downside when the economy enters a recession or serious bout of indigestion. Thus, we need to look no further than the first half or 2020 and 2008 to get a sense of how dividend paying stocks did relative to their peers.

    b. Not only did dividend paying stocks trail the market when it mattered most, but also trailed in the recoveries. Owning DVY resulted in trailing the S&P 500 by 18.64% in the first half of 2020 and 13.70% from 2007 – 2010.

4) A Steady Stream of Income
    a. This is the hardest reason to fight in not owning high dividend paying stocks. A company who commits to paying a dividend usually does so because it knows it can pay that amount in most economic scenarios. However, it cannot be stressed enough that dividends are not guaranteed. If a firm decides to pull their dividend the shareholder has absolutely no legal recourse. Thus to affiliate steady with no guarantee seems a bit of a stretch.

Another thing to consider is dividends and compounding growth. One of the most powerful factors in investing that is often overlooked is that of compounding growth. Receiving a dividend and choosing to not reinvest that dividend hamstrings the return of the portfolio.

Growth Rate	10%											
Dividend Yield	5%											
Share Price	$75											
Year	0	1	2	3	4	5	6	7	8	9	10	
No Dividend												
Share Price	$75.00	$82.50	$90.75	$99.83	$109.81	$120.79	$132.87	$146.15	$160.77	$176.85	$194.53	
Dividend	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	
Total Return											**$194.53**	**159.37%**
5% Dividend Yield												
Share Price	$75.00	$78.38	$81.90	$85.59	$89.44	$93.46	$97.67	$102.06	$106.66	$111.46	$116.47	
Dividend	$3.75	$3.92	$4.10	$4.28	$4.47	$4.67	$4.88	$5.10	$5.33	$5.57	$5.82	
Share Price ex-Div	$71.25	$74.46	$77.81	$81.31	$84.97	$88.79	$92.79	$96.96	$101.32	$105.88	$110.65	
Total Return											**$162.55**	**116.74%**

Growth Rate	-10%											
Dividend Yield	5%											
Share Price	$75											
Year	0	1	2	3	4	5	6	7	8	9	10	
No Dividend												
Share Price	$75.00	$67.50	$60.75	$54.68	$49.21	$44.29	$39.86	$35.87	$32.29	$29.06	$26.15	
Dividend	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	
Total Return											**$26.15**	**-65.13%**
5% Dividend Yield												
Share Price	$75.00	$64.13	$54.83	$46.88	$40.08	$34.27	$29.30	$25.05	$21.42	$18.31	$15.66	
Dividend	$3.75	$3.21	$2.74	$2.34	$2.00	$1.71	$1.46	$1.25	$1.07	$0.92	$0.78	
Share Price ex-Div	$71.25	$60.92	$52.09	$44.53	$38.08	$32.55	$27.83	$23.80	$20.35	$17.40	$14.87	
Total Return											**$36.12**	**-51.84%**

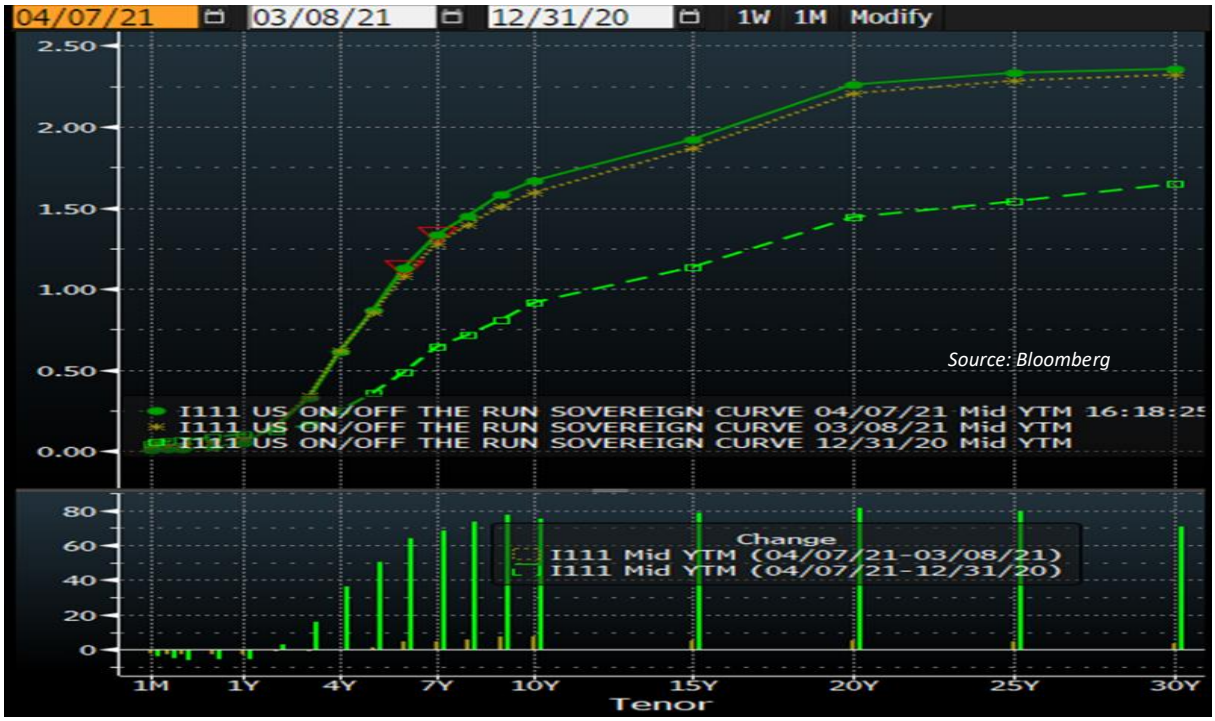
Over most 10 year periods the market tends to appreciate. In this scenario a firm that does not pay a dividend compared to one who does outperforms by nearly 43%. However, there are some decades in time where returns are negative. In this environment a firm that does not pay a dividend compared to one who does underperforms by just over 13%. Taking these two scenarios together yields a ratio (43/13) where an investor would be willing to sacrifice 3.3 units of return for every 1 unit of risk protection. This simple example assumes that everything is the same outside of the dividend, but history has shown dividend paying firms tend to trail in periods of duress. Thus the ratio stated above is understated from a historic perspective.

One final note is on dividends and taxes. Every "qualified dividend" is taxed at 15% for the bulk of investors. Thus, the comparison found above only gets wider when factoring in the tax consequences of an individual investor.

Bringing all this together highlights that high dividend paying stocks and their resulting ETFs serve little purpose in the investment world. Even for the constituency of investors who rely on high dividend paying stocks as a form of income to supplement social security and the like in retirement. These dividends are not guaranteed! In addition, dividend paying firms exhibit more leverage, underperform in all economic environments, and make little sense when considering compounding growth and taxes. This is why Titan Investments will not look to dividends as a means to vet a company. If anything a high dividend paying firm would cause a yellow flag to be noticed as it implies management is running out of reinvestment opportunities.

Fixed Income Fundamentals

The new normal of fixed income continued with interest rates marching higher through the month of March. The US Treasury Curve continued to steepen as longer term rates rose faster than shorter term rates. This has especially been the case for the 10YR as interest rates have moved 75bp (0.75%) higher to 1.67%.



This increase in interest rates is largely being driven behind the expectation of economic growth in 2021 as well as the fiscal stimulus increasing the money supply and stoking the flames of inflation.

Fortunately the actual flames of inflation remain subdued. Whether measuring via CPI or PCE, inflation continues to remain very range bound over the past 5 years. However, the April figure around inflation will most likely pop based off the price of oil. This stems back to last April when the price of oil actually turned negative. The monthly average price of oil in April 2020 was $18.84 and is currently hovering around $60.00 as of today. Thus, oil alone is 218% higher. Energy Commodities make up ~3% of the CPI calculation and thus a onetime event will imply a 7% CPI increase.

Be on the lookout for headlines indicating elevated inflation over the next month. However, it is important to remember this bump in inflation will be short lived as energy prices were quick to rebound to ~$40 in June 2020.

Conclusion:

The US continues to gain ground on COVID with vaccinations on the rise and setting the stage for the economy to reopen. However, emerging portions of the world (Brazil and India) remain in a precarious position and serve as a reminder the COVID is not over.

The rotation seems to have hit a wall as of late. Energy still leads the market YTD, but was a laggard in the month of March. In addition, Growth stocks are now attractively priced compared to their Value counterparts. Objective evidence continues to indicate that Information Technology is a strong sector to invest while Energy and Industrials have an incredibly high expectation to meet.

Dividend stocks offer little to any investor. One of the strongest arguments, albeit shaky premise at best is that dividends provide a steady stream of income. Dividends are not like the interest payments on a bond, not only are they not guarantee, but the investor has absolutely no legal recourse. Any investment in high dividend paying stocks needs to be backed by a thesis that the underlying shares of the firm are going to appreciate, otherwise it is underperforming strategy in the aggregate.

If you have any questions, please do not hesitate to ask.

Respectfully

Kenny Blickenstaff, CFA
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Backtested performance is NOT an indicator of future actual results. There are limitations inherent in hypothetical results particularly that the performance results do not represent the results of actual trading using client assets, but were achieved by means of retroactive application of a backtested model that was designed with the benefit of hindsight. The results reflect performance of a strategy not historically offered to investors and do NOT represent returns that any investor actually attained. Backtested results are calculated by the retroactive application of a model constructed on the basis of historical data and based on assumptions integral to the model which may or may not be testable and are subject to losses.

Backtested performance is developed with the benefit of hindsight and has inherent limitations.

Specifically, backtested results do not reflect actual trading, or the effect of material economic and market factors on the decision making process, or the skill of the adviser. Since trades have not actually been executed, results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity, and may not reflect the impact that certain economic or market factors may have had on the decision-making process. Further, backtesting allows the security selection methodology to be adjusted until past returns are maximized. Actual performance may differ significantly from backtested performance.

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