

# Slides to accompany FBB's client conference call



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Please email questions to: [Info@fbbcap.com](mailto:Info@fbbcap.com)

# Speakers



**Michael Mussio, CFA, CFP®.** As President of FBB Capital Partners, Michael is responsible for strategic planning for the firm, as well as managing client relationships and client investment portfolios.



**Michael Bailey, CFA.** As FBB's Director of Research and chair of the Investment Committee, Mike is responsible for monitoring and analyzing macro and micro economic data, secular industry trends, and identifying appropriate investments for clients' portfolios.



**David Malmgren, CFA.** As a Senior Portfolio Manager David actively works with clients to identify investment strategies, evaluate current financial goals, and manage their investment portfolios. As a member of the investment committee, David provides research and guidance to the team related to current and future investment opportunities. David developed and manages the firm's tactical Growth Momentum investment strategy, a quantitatively driven approach for capital appreciation.

# Agenda

- Mike Mussio: What are we telling clients?
- David Malmgren: Technical analysis
- Mike Bailey: How did we get here and what's next?
- Q&A session

# What should Investors do?

- Lack of Data = High Levels of Uncertainty:
  - Uncertainty = Market Volatility
- Stay true to your long-term allocation
- Remember you're diversified
- Reflect on the potential impact to your plan
- Talk with your portfolio manager about any concerns

# Technical analysis

- Drivers of Volatility
  - Uncertainty (the VIX ‘fear index’)
  - Liquidity (or lack thereof...)
  - Market Participants
- What to look for near term ...
  - Improvement in the energy markets, bond market
  - Reduction in the VIX
  - Constructive price ‘repair’ in stock market

# Technical analysis



# How did we get here?



Source: Bloomberg

# What are the market's pressure points?

- Energy
- Travel / tourism
- Financials

Investable Universe (505)	■	-27.5%
Utilities (28)	■	-16.7%
Health Care (60)	■	-18.1%
Consumer Staples (33)	■	-18.7%
Real Estate (31)	■	-19.3%
Information Technology (7...)	■	-23.2%
Communication Services (2...)	■	-25.1%
Industrials (71)	■	-27.1%
Materials (28)	■	-31.8%
Financials (66)	■	-33.8%
Consumer Discretionary (6...)	■	-34.5%
Energy (27)	■	-57.9%

Source: Bloomberg



# What's next for markets?

- Price to earnings ratios\*
- We know the price
- Earnings are a big question mark

\*If a company has \$1 of earnings and a \$15 stock price, then we have a price / earnings (PE) ratio of 15x. The PE ratio can indicate investor sentiment.

# What was market sentiment in 2019?

$$\frac{\text{Price}}{\text{Earnings}} = \text{Price to earnings (PE) ratio}$$

# What was market sentiment in 2019?

$$\frac{\text{Price (\$3,231)}}{\text{Earnings (\$163)}} = \text{Price to earnings (PE) ratio of } \mathbf{20x}$$

# S&P 500's historical PE ratio



# Where could markets bottom? (part 1)

$$\frac{\text{Price (-20\%)}}{\text{Earnings (-10\%)}} = \text{Price to earnings (PE) ratio -10\%}$$

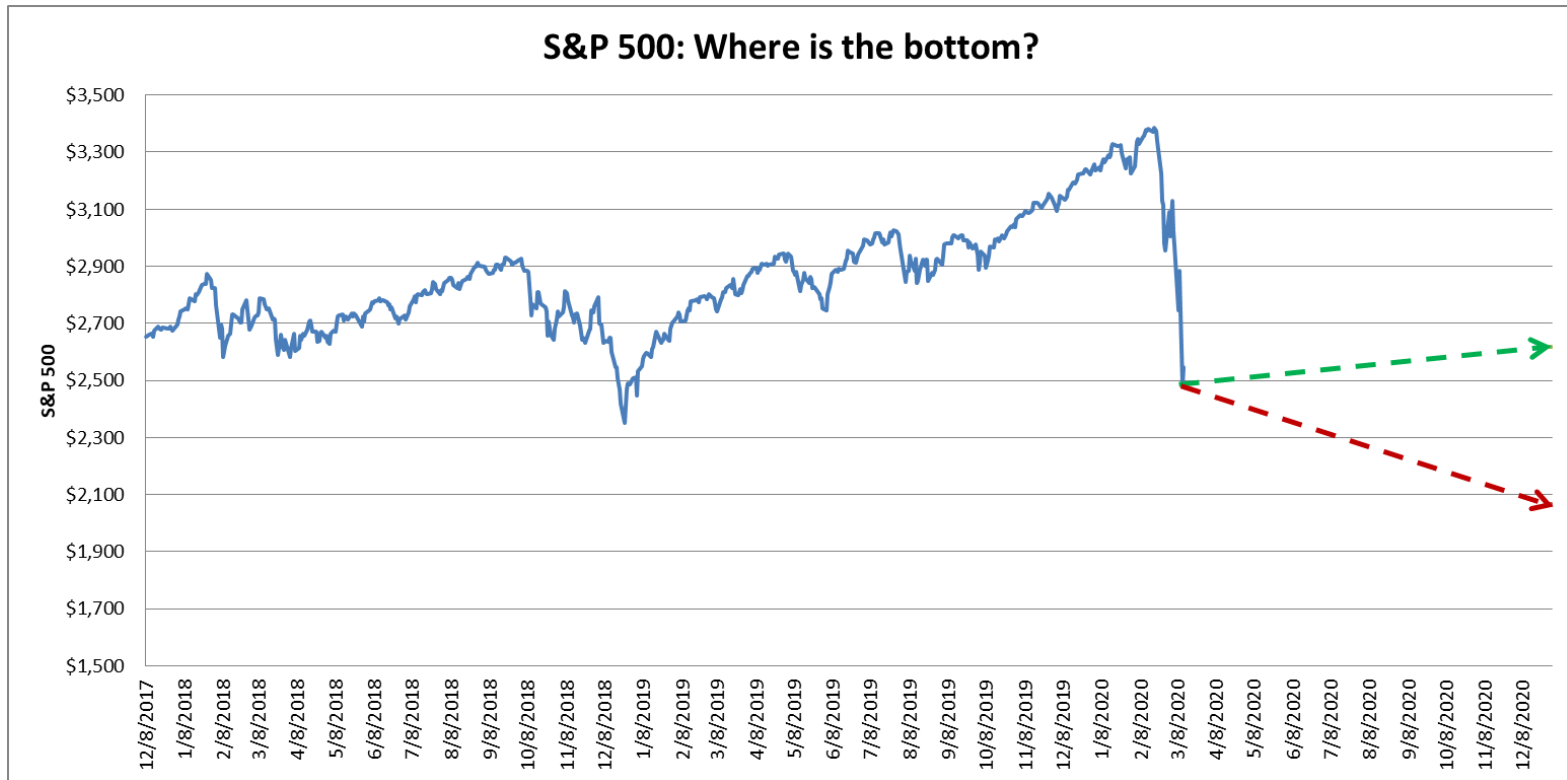
Note: This chart anticipates 2020 earnings for the S&P500 falling 10% from 2019 levels with a PE ratio that's 10% lower than last year's 21x. This produces an S&P500 price that's down ~20% from 12/31/2019.

# Where could markets bottom? (part 2)

$$\frac{\text{Price (-40\%)}}{\text{Earnings (-20\%)}} = \text{Price to earnings (PE) ratio -20\%}$$

Note: This chart anticipates 2020 earnings for the S&P500 falling 20% from 2019 levels with a PE ratio that's 20% lower than last year's 20x. This produces an S&P500 price that's down ~40% from 12/31/2019.

# Where could markets bottom? (part 3)



## 2020 S&P Target - Scenario 1

2019 P/E (20% haircut)	15.9x
2019 EPS (20% haircut)	\$130
12/31/2020 S&P Target	\$2,068

## 2020 S&P Target - Scenario 2

2019 P/E (10% haircut)	17.8x
2019 EPS (10% haircut)	\$147
12/31/2020 S&P Target	\$2,617

# Characteristics of widely-held FBB stocks

Relative to the S&P500, FBB stocks have

- Comparable dividend yields
- Greater profitability
- Less debt (relative to profits)
- Higher returns (on equity)

COMPANY	Dividend Yield	Operating Margin	Net Debt / EBITDA	ROE
FBB Holdings	2.1	23.6	1.2	35.9
S&P 500	2.4	13.0	1.8	19.2



# Conclusion

- Stay invested, stay close to home, and stay resilient
- Market technicals may be adding to volatility
- FBB invested in high quality, defensive securities

# Question and answer session



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