In An Aging Bull Market Don't Slam the Brakes, Proceed With Caution,

How investors can 'Participate with Protection' in a stock market that's near record highs.

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7/5/17

The market goes up over time, but not all the time. That's been easy to forget over the past eight years. When bull markets get long in the tooth like the current one, times get tough for investors who lean toward caution. Since steering out of stocks entirely simply isn't an option for investors who need the potential for growth in their portfolios, a sound way of operating is to balance those opportunities for growth with some protective positions. Think of it like riding a bike with the safety of training wheels. While you may not be the fastest rider, it provides balance and there's less risk of falling off. Stralem & Company has effectively used such an approach in U.S. equities for 50 years and we see evidence that the market may be turning toward a more normal environment that emphasizes strong fundamentals and operating performance.

S&P 500 stock correlations have broken decisively below long-term averages, highlighting the bifurcation between market winners and losers based on fundamental performance. Overall market volatility (as measured by the VIX) remains stubbornly low, but sudden spikes of extreme volatility around the uncertain outcome of specific events (e.g. French elections, Healthcare vote, Federal Reserve announcements, the recent tech stock stumble) point to pent up anxiety and lack of conviction among some investors.

After returning 17.2% on an annualized basis from January 2009 through 2014, the S&P 500 returned 9.1% annualized from January 2015 through May 2017 – performance that is much more aligned with the long term equity average of 10%. Market turns can trigger higher volatility: think 2000 and 2007. We're not suggesting investors abandon growth names right now, but rather that investors be careful about what sort of growth they're buying, and that they balance those stocks with some defensive names.

For instance, Stralem owns **Adobe Systems (ADBE)** and **Thermo Fisher Scientific (TMO)**, with their exposures to fast-growing markets like online advertising and drug development, but also has a place in the portfolio for **Dominion Energy (D)**

Whether doing a Google search, scrolling through a Facebook news feed or watching a video on YouTube, it's hard to escape online advertising, and **Adobe** makes "must have" tools that allow digital marketers to bring these advertisements to life. A virtual monopoly with strong barriers to entry, Adobe has very successfully transitioned its large and growing user base to a subscription model where users pay monthly for access to the tools and software they need. With the meteoric rise in digital advertising, Adobe is growing its predictable revenue stream at 20-25% per year and driving profits at more than 30% annually.

The biotechnology industry is one of the fastest growing and most innovative in the market, and the expensive research that goes into drug development is supported and enabled by Thermo Fisher's high quality tools and services. From big-ticket analytical gear like mass spectrometers and DNA sequencers to lab consumables like reagents, slides and petri dishes, **Thermo Fisher** has constructed a razor/razor blade business model that makes them an indispensable "one-stop-shopping" partner to their large and growing customer base. While the booms and busts of drug discoveries make the most sensational headlines, Thermo Fisher operates behind the scenes, growing steadily -- sales were up 8% in 2016 and profits 11% -- and not tied to any one potential blockbuster.

High-yielding utilities with little or no growth can trap investors, but **Dominion Energy** is at the opposite end of the industry. It has the good fortune to be located in an area of the country that is experiencing robust growth in both population and employment which in turn drives steady increases in the demand for both electricity and natural gas. Given its central location and proximity to the U.S. government, Dominion's service area is the home to a disproportionate amount of large, electricity hogging data centers (70% of global internet traffic runs through Northern Virginia!) that provide growing commercial demand. The company has pricing power and steady growth which helps it easily support its growing dividend, currently yielding 3.85%.

Combining faster-growing businesses with "sleep well at night" stocks can help investors navigate the market's choppy waters and resist the urge to make costly decisions to jump in or out of the water during volatile times.