BLUE GRANITE CAPITAL, LLC

INVESTMENT COMMENTARY
January 2019

Good morning,

Happy New Year – we hope you enjoyed your holidays. Capital markets around the world certainly greeted 2019 with an attention grabbing start. While many feel the markets have a bad case of the flu, we believe this is more like a head cold. Our take: market volatility does not equate to an economic recession and we retain our outlook for positive earnings growth, which ultimately determines market direction.

At Blue Granite as we continually evaluate near term factors, we're primarily focused on the long-term, driven by the corporate earnings outlook. Market jitters notwithstanding, Fortune 500 corporate earnings have not varied significantly over the decades as large company earnings have grown on average 12% per year.

We're likewise thinking about things perhaps overlooked by others—the financial media included. GDP continues to expand, as do economic leading indicators. S&P 500 earnings in the third quarter of 2018 grew in excess of 25% year over year, combined with revenue growth over 9%. Though earnings projections for this year are more tempered, industry forecasts point to continued EPS growth approximating 10%.

Corrections are common, and we're mindful that the market typically recovers over the short- term after a significant pullback which has occurred over a dozen times since 2009. In the meantime, during this market's head-cold, we've been busy buying shares in leading companies that we want to own at discounted prices. The December sell-off lowered market Price-to Earnings (P/E) valuations from 24 to its current P/E of 16 times earnings and the companies we like are at even more compelling levels.

We're optimistic for 2019 and will look forward to actively sharing our insights with you throughout the year.

Kind regards,

Scott, John and Dave