

Week in Review

Today: Q2 was a roller coaster of a quarter
Deep dive into Merck and CommScope

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OLLI-GMU Investment Forum

Disclaimer: I am not a certified financial analyst.
Any trading decisions you make are your responsibility

Forum Purpose and Ground Rules

Purpose of the Investment Forum: A venue to discuss ideas, insights, information and sources, by long-time investors, that may be helpful in making investment decisions.

Ground Rules:

- We are not investment advisors, and no investment decisions should be made based solely on what you hear at the Forum.
- **Always perform your own “due diligence”** before making any investment decisions.
- We are respectful of each others' opinions and investment decisions.
- We do not discuss political opinions.
- We do not discuss personal amounts of money in our portfolios or trading decisions.

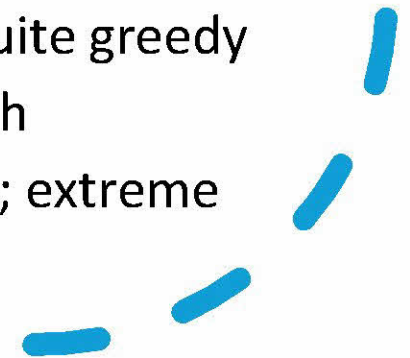
Economic Commentary

- US-Israel-Iran war cease fire is holding
 - Oil and gas markets are unaffected
- Tariff deals await – Canada rescinded a tax on US digital services – negotiations proceeding
- Framework with China agreed upon
- ISM manufacturing index contracted again, 4 straight months
- Unemployment remains low – 4.3% expected tomorrow
 - Continuing unemployment claims at 2M, worst since 2021
- New home sales fell 14% in May
- Durable goods orders up 16% in May, after April lull
- RV shipments are down 15% YoY.
 - Winnebago issues warnings
- US stocks remain weak vis-à-vis international stocks

Market commentary

Mixed signals

- It was a roller coaster of a Q2 for the S&P500
 - Down 19% in April, recovered to up 4% in June
- S&P 500 hits all-time highs June 27 and 30.
- US Dollar (DXY) continues its downward trend
- Bond market prices continue rising, yields decreasing gradually
- High yield spreads down from 4.5% to 3% and declining – a bullish indicator
- AAI trader sentiment is 35% bullish, 40% bearish
- CNN fear gauge increased to 67, quite greedy
- VIX steady around 16.7; very bullish
- Put - Call ratio remains low at 0.65; extreme greed



Health Care – why so sick?

Discussion of 10 major Health Care corporations

Used table comparing a selection of their

**Selection of Financial Statistics,
Quant, SA Analyst, & Wall Street Ratings
Valuation, Growth, & Profitability Grades
Yield FWD & 5-year Dividend Growth**

Merck and Co. (MRK)

Deep dive discussion of Merck (MRK)

Using one page summary of

**Diminishing 1-year price history,
Financial statistics,
Analysts Ratings Summary,
Factor Grades & history,
Analysis & News headlines**

Merck profile

- Founded in 1891
- Headquartered in Rahway, NJ; 73,000 employees
- Pharmaceutical segment offers drugs for oncology, vaccines, hospital acute care, cardiovascular, virology, neuroscience, and diabetes
- Animal health segment provides veterinary pharmaceuticals, vaccines and health management solutions and services, such as livestock products
- Merck has several joint drug development collaborations with Moderna, Astra Zeneca and Antengene

Merck pros and cons

Pros

- Fwd PE 9 vs. sector median 24
- Highly profitable: GM = 76%
- EBITDA margin 38% vs. 8% peers
- Two recent acquisitions
- Morningstar 4 stars, 35% undervalued; fair value 111.
- Strong pipeline of new cancer drugs
- Low beta = 0.38
- Total debt / equity: 0.72
- Good dividend: 4%
- Low short interest: 1.5%
- P/S 3.14; P/B 4.12

Cons

- Weak momentum
- Weak SP revisions
- Keytruda patent expiring in 2028
- Health care out of favor with Wall St
- New HHS policies creating uncertainty
- Medicare fraud creating uncertainty

CommScope Holdings, Inc

Deep dive discussion of CommScope Holdings (COMM)

Used one page summary of

**Steady then rising 1-year price history,
Financial statistics,
Analysts Ratings Summary,
Factor Grades & history,
Analyst & News headlines**

CommScope Holdings profile

- Founded in 1979; 20,000 employees, based in Claremont, NC
- COMM provides infrastructure solutions for communications, data center, and entertainment networks worldwide.
- CCS segment provides fiber optic and copper connectivity, and cable solutions for data centers, and business enterprises;
- NICS segment offers indoor cellular solutions, such as public key infrastructure solutions, indoor and outdoor Wi-Fi
- ANS segment offers cable modem termination systems, video infrastructure, distribution and transmission equipment, and cloud solutions

CommScope Pros and Cons

Pros

- Recent divestment of two non-core businesses
- Fwd PE 7 vs. peers 29
- Q1 profits increased 159% YoY
- Strong gross profit margin: 43%
- Fwd EPS growth rate 43%
- Net Income Margin 18%
- Strong momentum: SP up 409% YoY
- Price revisions: 6:1 upward

Cons

- High debt load: \$7B
 - Paid off \$2B last year
 - Committed to debt reduction
- Low R&D investment: 7% of sales
- Excessive CEO pay: \$16M
- Formidable competition
 - Cisco, Juniper

Now what?

- US economy remains very resilient but is slowly weakening
 - Watch for the labor market to turn south
- Bond market is gradually relaxing
- Stock market is very fragile and expensive right now due to heightened uncertainty
 - Tariff affects not yet realized
 - Immigration
 - BBB / deficits
 - Wars in progress
 - AI impacts to be reckoned with
- How to protect yourself?
 - Invoke stop loss orders
 - Focus on dividend payers, staples, utilities, cash flow
 - Diversify – go international
 - Buy put options as insurance
 - Consider gold – GLD

"The market can stay irrational longer than you can stay solvent." - John Maynard Keynes