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July 20, 2018

Insider Views: Price versus Value

There is a saying that a person can know the price of everything and the value of nothing. With Netflix stock this year, it would be understandable to have one's thoughts filled with price rather than value. The stock more than doubled year-to-date from \$191.96 to a high of \$423.21 through last week prior to earnings.

The company reported earnings on Monday after market close. It was a disappointment. Global subscriber net additions were well below forecast (5.2 million versus 6.2 million forecast) and forward revenue, earnings and net subscriber additions guidance for the third quarter were all below consensus estimates.

On Tuesday, the first trading day investors could express their disappointment with the report in the market, the stock declined by about 15% intraday. By the end of the day roughly 14% of the float had traded (about 58.4 million shares relative to average daily traded volume of about 10.4 million shares) and the stock was down by only about 5% on the close.

Netflix Stock Price Year-To-Date



The intraday stock bounce off the lows (\$344.00 low day price versus \$379.48 closing price, up 10.3%) may be a bullish overall market signal. First, price resilience in a leadership stock that has run so far so fast is encouraging. Second, large institutional investors may have been underweight the stock and used the sell-off to add to their positions. This second point may suggest that institutions have capital and buying interest to support winning stocks on weakness. Third and possibly most importantly, Netflix management may have been buying stock back.

During the second quarter, Netflix raised \$1.9 billion via a bond sale. On the subject of value, Netflix management said, “we judge that our after-tax cost of debt continues to be lower than our cost of equity.” This is a fancy Chief Financial Officer way of saying the stock even at current prices offers good value. Netflix would rather borrow than sell stock at current prices.

On Tuesday after market close, Berkshire Hathaway (Chairman Warren Buffett) eliminated an internal valuation restriction on its ability to buy back its own stock. Although Berkshire is not buying its stock back before its August 3 earnings announcement, it does signal that management believes the intrinsic value of the stock might be higher than its current trading price. On Wednesday, Berkshire traded roughly 5% higher.



It is not that the investment skies are completely blue. Clouds on the horizon include rising interest rates, global central banks moving away from easy money policies, a recent economic slowdown in Germany, weakness in emerging markets, trade wars, federal government deficits and debt in the wake of the tax cut and increasing government spending, and a gut sense that the expansion cannot go on forever.

These are legitimate concerns over time. But today and for the foreseeable future, the statements of value by company managements suggest there is market appreciation ahead.

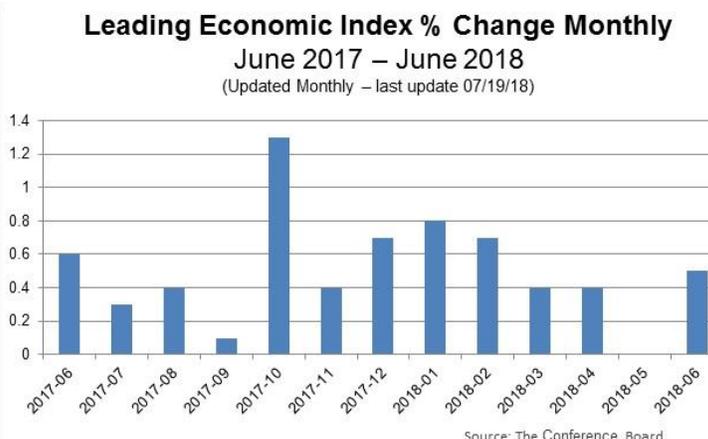
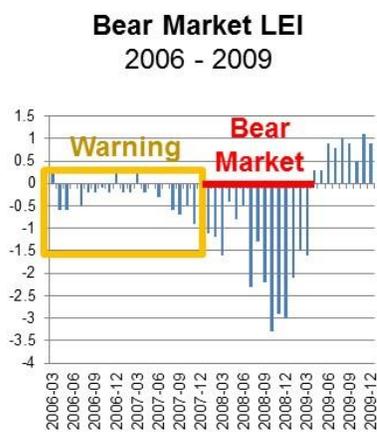
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"I think you should be aware that the chef is a summer intern."

Delta Stock Market Dashboard



INDICATOR STATISTICS

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

66.1

Our technical indicator decreased
this week from 66.2 to 66.1

Consecutive Bullish Weeks:	11
Cycle Inception Date:	5/10/2018
Range:	51.2 – 69.9
Mean:	62.2
Bullish Weeks YTD:	23
Bearish Weeks YTD:	6
*S&P 500	3.2%
*DJIA	1.6%
*NASDAQ	5.9%

* Percentage change during current cycle

Delta Market Sentiment Indicator Over the Past Year



(Delta MSI is published in *Barron's*)

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