Federal Reserve and the Economy

There's been a lot of angst about Federal Reserve "losing control" being bantered around. But we've always argued that the Fed and monetary policy does not control the economy anyway. The Fed will often make moves contrary to what we think is necessary, but that is by far the least important of many factors that the businesses in which we invest have to navigate.

Similarly, trying to predict economic cycles is an investment trap: the next big recession has been consistently predicted every single year since about the summer of 2010. One of these years, those predictions might be right, but if we had followed the path of "recession predicting" we would have missed some enormous opportunities over the past ten years

Negative Over-reactions in Market

We've seen what we believe to be extreme negative over-reactions by investors in a few of the companies we own. We believe these companies present opportunities for those who understand the story and have a longer-term horizon (more than a few quarters). Trading stocks on predictions of the next one to two quarters is always a losing game, in our experience.

Alliance Data Systems (ADS) has been pummeled during the period of their strategic sale of their Epsilon segment and likely pending sale of their Loyalty One segment, leaving what many investors see as basically a credit card business (and since the world is sure that we are "late in the cycle" that isn't seen as attractive). What we believe is actually very differentiated about ADS is the fact that they run the brand-affiliated credit cards for retailers such as ULTA Beauty, Wayfair, Victoria's Secret or Pottery Barn. They get SKU-level sales data from those clients, enabling ADS to provide analysis and visibility for those customers that is difficult for them to get elsewhere. Note that other cards get purchase-level data on how much was spent by a customer when a card is presented, but not SKU-level data.

We've seen similar pummeling of Banking-as-a-Service provider **GreenDot (GDOT**) which argues that banking is changing to look more like an app to appeal to the younger generations (instead of checks, cards, ATM machines, branch visits). Millennials and Gen Z are now reaching the age where they are starting banking relationships and are looking for banking apps. This "banking app" story is not unrecognized, and venture-backed entrants are everywhere. GreenDot's stock has recently been hammered due to competitive pressure in this direction, but we believe that they have a significant differentiation: they actually own a bank while the newer start-ups are basically social-media-savvy marketing firms that must partner with existing banks. We believe GreenDot's model will eventually prove to be successful in the latest transformation of banking, although investors in this story may need to put up with volatility in the near term. Those who believe that the future of banking will look more like an app than a bunch of branches, and who have a longer time horizon with their investment, might want to take another look at GreenDot.

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