Weaker-Than-Expected Car Sales Have Ripple Effect for SSR Portfolio

Car sales fell unexpectedly in March, boosting fears about bloated inventories and pricing pressure in an industry that many see as a key driver of the U.S. economy. This also reignited concerns about a subprime auto-loan bubble. Automotive industry analysts were expecting automakers to report increased sales in March compared to a year ago, which would have marked the first monthly increase this year. Instead, the results were worse than expected, even though carmakers have been using the low-interest-rate environment to offer generous discounts to clear out inventory.

General Motors (**GM**) reported a 1.6% sales increase in March compared to the same month a year ago. Ford Motor Co. (**F**) reported a 7.2% drop, as a decline in fleet and passenger-car sales more than offset truck deliveries. Fiat Chrysler Automobiles (**FCAU**) reported a 5% sales decline in March. Toyota Motor Corp. reported a 2.1% decline in sales, while Honda Motor Co. posted a 0.7% decline, according to The Wall Street Journal.

In all, automakers sold 1.6 million vehicles in March, according to Autodata Corp. This figure was 1.6% below the sales figures from March 2016. In addition, March's seasonally adjusted annual sales pace, or SAAR, fell to 16.6 million, down from expectations that the figure would exceed 17 million following February's SAAR or 17.6 million.

Automakers are boosting incentives to sell cars, but with mixed results. According to J.D. Power, the average sales incentive was $3,750 in March, or 10.3% of the sticker price. This is the highest level since the peak of the financial crisis in March 2009. In addition, J.D. Power also said that the number of days a vehicle sat on a dealer lot before being sold rose to 70 days in March, the highest level since July 2009.

While the SSR portfolio does not hold any car manufacturers, it is invested in auto parts makers. If auto sales continue to weaken, automakers could scale back production, which would lead to less demand for parts and accessories. Two SSR holdings fall into this category. Both stocks were among the weakest performers in the SSR portfolio this week and highlight three things when holding individual stocks. First, it is important to be aware of how seemingly unrelated data can impact stock prices. While neither of these companies produce cars, their revenues and earnings are heavily dependent on the strength of the auto industry. Secondly, having a well-diversified portfolio can partially protect you from poor performers in a specific sector or industry. Lastly, short-term volatility should not drive long-term investment decisions. At this point, we do not know if there is a fundamental shift taking place in the auto industry. Changes in company fundamentals would be the ultimate indicator. As investors, we mustn't be swayed by near-term volatility and uncertainty.

Having a well-defined, long-term investment plan will see you through such periods without letting emotions drive you to make poor decisions. That is the focus of the SSR investment approach, which uses four distinct stock selection methodologies to build a well-diversified portfolio designed to outperform the market over the long term.

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