

2017 1st Quarter Commentary

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By
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“If you mix your politics with your investment decisions, you’re making a big mistake. Stocks are actually on the cheap side compared with historic valuations”

-Warren Buffett

“Trade restrictions basically transfer jobs from some people in the U.S.-new jobs in the export-oriented industries or industries fueled by foreign investment demand- to other people in the U.S. who hold old jobs. And they do so inefficiently, making Americans buy more expensive goods overall.”

-John Cochrane, The Grumpy Economist

“Trump’s policies on trade and immigration violate many longstanding principles of the Republican Party, but none as much as they violate the party’s anti-tax stand. Choking off trade and immigration will raise prices. Every Republican in Congress who ran on law-tax principles ought to govern according to those principles.”

-Thomas G. Donlan, Barron’s

“The conventional wisdom on corporate taxes is that the lower they are, the more companies can invest and stimulate the economy. That’s not how it worked in 2012. Among 34 countries in the Organization of Economic Co-operation and Development, the average corporate tax rate has little bearing on economic growth.”

-Mark Glassman, Bloomberg Business Week

“The even so unloved and distained bull market might have more upside than even its earliest adapters and supporters project.”

-John Stoltzfus, Chief Market Strategist Oppenheimer & Co.

Our US equity markets continued their move higher through the first three months of 2017. This bull market, that began on March 9, 2009, is now the second longest in US history. The market timers and naysayers, who have missed the mark for these past eight years, must examine their crystal balls and other criteria. The wall of worry on which a bull market climbs remains and grows even taller. Whether

it's the Trump presidency, the "slowdown" in China and Europe, our national level of debt to GDP, raising interest rates, trade imbalances, Brexit, the French elections, potential tariffs, rising consumer debt or the length of this recovery, there are a plethora of reasons not to own stocks. Despite seventeen new highs in the S&P 500 through May 24th, twenty-one new record highs in the Nasdaq through April 3rd and the DJIA closing above 21,000 for the first time on March 1st, there seems still little enthusiasm in these markets. Caution prevails. On March 20th Barron's reported that recent surveys show bearish sentiment among individual investors at its highest level in more than a year and that many money managers are holding their lowest exposure to stocks. This is good: let worry reign.

We are happy with our returns thus far this year. Through the end of March our median return, for all portfolios ranging from aggressive to "ultra-safe", was 5.1% and our average return was 5.2% with individual portfolios ranging from a low of .5 to a high of 24.3%. Meanwhile, the DJIA increased by 5.19%, the Nasdaq by 9.82%, the S&P 500 by 6.07% and the iShares Investment Grade Bond EFT (LQD) by 1.2%.

We continue to look for actions out of Washington that will add positively to our economic growth, but thus far have witnessed little but continued gridlock and political posturing. This is good, as we are fine without any mucking up from Congress. Thank you very much. Evercore's International Strategy and Investment's survey of American businesses and communities notes that cities around the US are "booming" buoyed by growth in healthcare, sports, higher education and millennials emergence into the workforce and housing markets. "The U.S. economic expansion is now the third longest on record and showed no signs of letting up in February, with robust hiring, falling unemployment and firmer wage growth opening the way for the Federal Reserve to raise short-term interest rates", wrote the Wall Street Journal in mid-March. Consumer confidence is high, CEO optimism as measured by The Business Roundtable's CEO Economic Outlook Index jumped to 93.3 in March, well above its average of 79.8. IMF increased its global outlook for the year in April. U.S. household net worth, at \$92.8 billion, is back at levels before the 2008 financial debacle; unemployment is under 4.4%. The underemployment rate (U-6) fell to 8.6% and would be even lower IF those permanent unemployed chose to pick up the skills necessary to contribute to society. In January the US had 200,000 unfilled construction jobs due to a lack of skilled workers. We have the work, just not the skilled workforce.

All in all, we continue to see more positives than negatives on the horizon. We see continued moderate economic expansion and the long-term trend towards continued higher stock prices. We do expect a correction, not the beginning of a recession, between now and October. We view such a development as a healthy dynamic supporting continued long term advancement in stock process and intend to use such a pullback as an opportunity to add cash to investments that we like but are reluctant to buy at current prices.

Nothing has developed that has caused us to change the course defined in my previous letters: none of our criteria for a recession are waving red flags. Please call should you wish it discuss anything pertaining to your portfolio or financial program. We thank you, as always, for your continued confidence and business.

Enjoy your summer!