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4th Quarter/Annual Portfolio Commentary for 2017

By

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“Free trade quote from china”

“Donald Trump was having a successful Pacific sojourn this week, and then came Friday’s speech to the Asia Pacific Economic cooperation confab in Vietnam. This was supposed to lay out his vision for a free and open Indo-Pacific, but instead he went on a tear against multi-lateral trade agreements. This dismays America’s friends, gives a new opening to China, and threatens the rules-based order Mr. Trump says he wants. The biggest victim will be the United States.”

-Editorial, WSJ November 11-12, 2017

What a year! Who would have thunk? How many all-time new highs in our equity indexes were reached month after month? The advances in equity prices in 2017 confounded everyone, I believe, although we will take some credit for staying invested during the year, despite much handwringing by a litany of mavens, by focusing on the economics of our country and not on the politics. Our indexes provided returns as follows: DJIA +25.08, NASDAQ +31.52, S&P 500+19.42 Russell 2000 +, US Treasury Index +, and all of this without Bitcoin’s contribution. Our returns, for all accounts with objectives ranging from ultra conservative to aggressive, ranged from .1 to 54.7% with our median at 12.8%. The return for your account is reflected on the progress reports within this packet.

Now what?

Our equity markets seem to be running away to the upside. In our opinion, we are not excessively overvalued yet, but the phase known as “market melt up” may be appropriate. Many, who shied away

from stocks over the past several years, are now afraid that they will miss the boat and may jump in no matter what price a desired stock may trade. The exuberance over the tax “reform” package recently passed by Congress may carry the prices of stocks higher during 2018. If corporate earnings support the valuations, the rally will be sustainable. We will watch carefully for signs of imbalance and when deemed appropriate, will change our investment posture. For the meanwhile, we intend to enjoy the ride and the fruits of the decisions we made over the past several years to purchase stocks.

We continue to believe that this run has more upside for several reasons. They are:

1. GDP growth is still moderate, in the 2.5-3% range, and is not overheated;
2. Retail sales and consumer spending is healthy, with consumer spending rising at an annual rate in the 2.3% range for the third quarter and fourth quarter numbers looking very favorable;
3. Unemployment readings continue low in the 4.1% range;
4. Initial unemployment claims came in at a 44-year low in December;
5. The housing sector is very healthy, with the NAHB/Wells Fargo Housing Index rising to 74 in December, an 18-year high;
6. Monetary policy is tightening, with the Fed Funds rate up to 1.25-1.5%, but still historically low;
7. The annual rate of wage growth is still low, in the 2.5% range. The utilization of technology, robotics and global growth may all serve to keep this from growing aggressively;
8. Earnings in equities continue to improve and therefore, in our judgment, support their current valuations. S&P 500 earnings may improve into the \$150 range during 2018 and therefore support an S&P Index of 2,800;
9. The US dollar weakness supports US exports and supports higher US stock prices.

We remain cognizant of the things that could upset this applecart, namely too aggressive Fed tightening, US dollar appreciation, a global blowup either from geopolitical or natural disaster, trade war springing from Mr. Trumps “American First” orientation, or some other “Black Swan”, and will do our best to foresee such happenstances. But, from our present stance, see relatively blue sky ahead and will hold our present investment posture.

We do suggest, in light of interest rates rising along with the Fed tightening, that those of you who hold an excessive amount of bonds consider lightening up and shift towards those with shorter durations. Please make a point to discuss this with us when we review your portfolio posture.

We are pleased with the growth in our portfolios overall, especially those which beat the averages. I hope that you are also. Please do give us a call should you have any questions whatsoever pertaining to your portfolio or financial plans in general.

We thank you again for your continued business and confidence and look forward to the year ahead.

