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Equity Investors Outlook

The first quarter of 2017 just ended with great returns for most U.S. stock market investors. The S&P was up 5.5% while the tech-heavy NASDAQ was up 9.8%. Technology stocks were up an average of 12% for the first quarter of 2017. One would not have expected this to happen this early in Trump's presidency since he has not been talking too favorably toward the sector. Apple has been on a winning streak, up 24% in the first quarter of 2017.¹ As addressed before in my newsletter, I believe technology is disrupting many industries. One can see its impact especially in the retail industry. According to Jason Murdrick, there could be as many as 50 retail chains that could potentially go bankrupt this year.² I believe Amazon is creating a big part of this disruption; however, equally as destructive is millennial spending, the over-building of retail, and the internet...



The equity returns for the first quarter were very good. What's also surprising is the lack of volatility during the quarter. Gunjan Banerji reports³, "The average daily move by the 30-stock gauge in the first quarter was 0.3185%, according to data from The Wall Street Journal's Market Data Group. That's the smallest average since the fourth quarter of 1965, when Lyndon B. Johnson was the U.S. president. And it isn't just the blue-chip companies the Dow tracks. The S&P 500, a broader measure of U.S. equities, posted an average swing of 0.3172% in the first three months of 2017, making it the quietest quarter since the third in 1967, the data show." The lack of volatility is surprising with the international problems that we've seen in the first quarter, including lack of legislative concessions, "meeting of the minds" on the healthcare plan and all the divisiveness in the country...

I believe that equity investors are looking past these issues to corporate tax reform, corporate repatriation of money, increased infrastructure spending, and continued regulatory easing. In my opinion, these are all more important in investors' minds to provide immediate 2018 stimulus for the economy. I feel if the stock market perceives they are not going to come to fruition or be delayed by some meaningful timeframe then there could be some kind of stock market correction at that point.

International Economies

Overseas, I believe many countries are trying to reflate their economies. China seems to be doing much better than a year ago. One can see this because commodity prices have picked up over the last year. However, I think one has to always be concerned with

China's possible bubble-like investment sectors which include real estate, parts of the stock market, debt structure, and of course the social fabric holding it all together. Secondly, I believe what compounds this problem is the Chinese people and their culture are more in tune to speculation and gambling and are believers in luck rather than odds. This has worked for them in the past; however, one day it may catch up to them.⁴



In the 2008 crisis, the U.S. saw the market lose confidence in its economy, in particular, the amount of debt that was building up in housing, the banking sector, and international trade... So let's hope that a strong China will continue to drive up growth in the emerging markets and continue to grow along with the United States.

International Economies (Continued)



In Europe, we've seen Great Britain vote to leave the Eurozone. There are more elections of European countries this year but none more important than France's. In France, candidate Le Pen is a populist candidate that wants France to leave the Eurozone as well.^{5,6,7} I don't believe she will win. However, the repercussions would be enormous for the world if she did. I don't know if the Eurozone would survive without France. In addition, a strong Eurozone would act as a bigger buffer against Russian aggression.



Also, as mentioned before many wars have been in Europe over the last hundred years. That would be equally as important. At Saleeby & Associates, Inc. we have been increasing positions throughout our client's portfolios in Northern European companies because I believe they have some of the best managed corporations that have great products, barriers to entry, and excellent valuation.

North Korea

Another major international problem lies with North Korea. It is a poor country that has been able to defy most of the actions of the US and other countries to stop its nuclear proliferation. Part of the problem with this is China's connection to North Korea. I believe it appears to be a lot closer than they state it to be and my guess is this stems from several potential issues:

1. China doesn't want North Korea and South Korea to join forces again in their region. This has military, cultural, real estate, financial, and economical consequences. One sees how the unification of the two former East and West Germany has become an economic powerhouse already.⁸
2. China doesn't want an immigration problem; there are many North Koreans that would love to leave and, geographically speaking, China would be an obvious choice for that relocation.⁹
3. There are 78,500 US troops stationed in South Korea and Japan; these troops need military support and weapons which China doesn't like in their backyard.¹⁰
4. Many people think China likes to have someone being a nuisance, or worse, to the U.S. This is a trade, political, economic issue as well.



There are many other issues that are involved with North Korea and China. North Korea needs hard currency and they currently trade with China for coal and other commodities¹¹; however, I believe North Korea is a large arms supplier throughout the world so their nuclear ambitions could expand beyond their own program. What happens if they sell their technology to a hostile country, thereby expanding problems for the US? Furthermore, I believe as they expand their nuclear program other countries such as Japan, Philippines, and South Korea may embrace their own programs leading to a nuclear arms race. If this issue is left untouched it will probably only get worse. In addition, I think there are other problems not often thought of that involve cyber terrorism both between the US and North Korea so the Cold War could not only turn militarily, but is currently being fought via cyber space as well. There is no immediate failsafe answer but one has to think the ramifications are large and are getting worse as time goes on.

One should bet that President Trumps meeting with President Xi Jinping was discussing trade regarding the U.S. & China for China to exert more power over North Korea.⁹ In addition, China doesn't want an increase in U.S. military and weapons in the area.

Overall, I believe it appears that emerging markets, which are heavily dependent on established markets, are finally starting to improve. This is good for everybody because they have seen tough times since 2008 when the U.S. and Europe had a financial meltdown thereby affecting capital markets throughout the world. I believe they have not had easy access to capital but that is slowly starting to return. I still believe the best way to capitalize on the emerging markets is through buying U.S. and European multi-nationals.

In conclusion, I believe many companies in the world economy are trying to reflate their economies after many years of deflation. Almost all of the industrialized countries are dealing with many of the same problems. How do they provide employment and social services to their people while keeping them productive in a new world? Every day various occupations are being disrupted by technology and globalization and it is happening at such a fast pace. In America, I am confident the corporate sector is adapting to these changing times but too much government interference could stifle this. However, with the change going on in corporate America the U.S. government needs to have plans in place to have safeguards that make it easier for the people to have jobs to earn real wages.

Job Disruption

Most corporations are concerned with keeping their customers, shareholders, and employees happy while maintaining profitability. But as we all know, when the economy goes down, the employee is the part of the equation that suffers the most when things go wrong. The government needs to plan ahead for future disruptions as well as what's going on today. As discussed before, we need to spend a lot more money on infrastructure, education, trade schools and training people for the jobs that are out there that are going to be in the future. If you had told somebody two or three years ago that we are going to have driverless trucks, investors would have said that was 10-20 years away and that's a pipe dream. Today it becomes a lot more evident and a lot more important that we develop plans because of the large amount of the population that relies on this for their living. David Pogue of Yahoo Finance reports¹²:



“Once our trucks and taxis drive themselves, what will happen to the *people* who used to do those jobs? In the U.S., that's 180,000 taxi drivers, 600,000 Uber drivers, and 3.5 million truck drivers.”

“‘Bring on the disruption that is automation,’ said Elisha Wiesel, the chief information officer at Goldman Sachs. The company now hires nearly as many computer engineers as financial workers.”

“A quarter of the people on the famous Goldman Sachs trading floor aren't traders; they're coders, writing software to automate the routine grunt work of employees all across the company.”

“All right, we get it; no job is safe. According to a recent study, 47 percent of American jobs could be lost to automation in the next 20 years.”

I am confident the U.S. will come out on top but I am not so sure there won't be a lot more people left behind that shouldn't be. However, we live in the greatest country and generally over the long-term we do what is right.

Thank you for your business and confidence and look forward to continued profitability.

Optimistically Yours,

Handwritten signature of Raymond F. Saleeby.

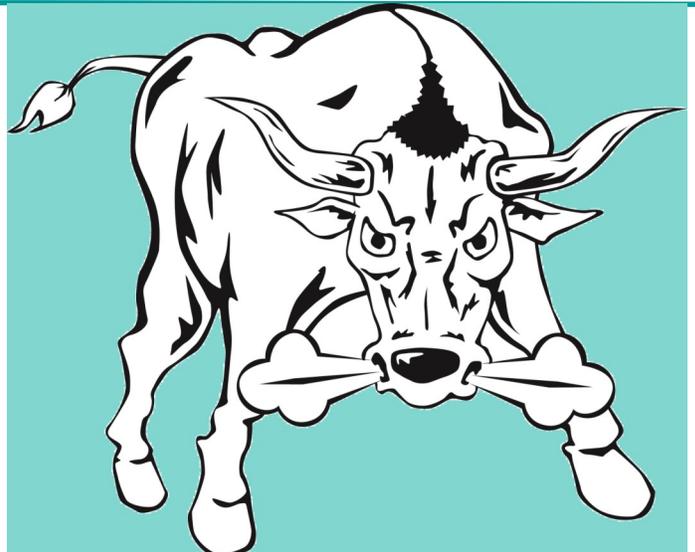
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<http://www.businessinsider.com/donald-trump-george-steinbrenner-yankees-relationship-2017-2>

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<http://www.businessinsider.com/death-of-fashion-series-overview-2017-3>

Europe Has Banned Hundreds of Chemicals That the US Still Uses

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The US Added 400,000 Millionaire Households in 2016

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What Happens When Your Foot Falls Asleep

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New Arthritis Implant Uses Contact Lens Material as a Cushion

<http://www.nbcnews.com/health/health-news/new-arthritis-treatment-could-be-game-changer-n733021>

Joint-Replacement Surgery Gets Boomers Back in the Game

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This Promising Prostate Cancer Treatment Could Be a Game-Changer

<https://www.fool.com/investing/2017/01/28/this-promising-prostate-cancer-treatment-could-be.aspx>

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<http://www.businessinsider.com/grapefruit-medication-bad-interactions-list-2017-3?op=1>

Surprising Ways Alcohol Affects Your Body and Brain

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How to Find Your Missing Keys and Stop Losing Other Things

<https://www.nytimes.com/2017/04/03/well/missing-keys.html>

Footnotes

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