APRIL 2017

THE INVESTMENT INSIGHTS

A newsletter brought to you by GGFS

The quarter in review

Markets have been firing on all cylinders during the first quarter, setting new all-time highs several times before mildly correcting towards the end of March. Robust economic news, expectations of strong corporate earnings, upbeat consumer confidence, as well as the prospect of deregulation and tax reform all contributed to the positive market environment. While some are arguing that markets have gotten ahead of fundamentals and are now overvalued and due for a correction, we don't necessarily agree. In our view, while there are certainly areas of the market that are overvalued, there are also some attractive areas that we believe should perform well over the next 12 to 18 months. Most importantly, we remind investors that market timing is a futile exercise that rarely ends well. Short-term pullbacks and corrections are a natural part of a strong bull-market and should not be feared. To the contrary, we would welcome a short-term pullback, which is inevitably uneven and thereby creates new investment opportunities (some sectors and stocks will sell off more than others, creating undervalued investment opportunities). All things taken into account, we maintain our cautiously optimistic view heading into the spring and summer months, continuing to focus on companies with strong balance sheets, a solid dividend, as well as a history of consistently raising their dividends.

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Look Ahead

As the tax filing deadline looms, so do corporate earnings. In general, we anticipate solid results that could help boost the market to new highs. From a fundamental perspective, we continue to see the necessary growth and improvements in our economy to justify current market levels and further gains. Nonetheless, we also recognize that there are potential bumps in the road. In particular, geopolitical risks – for instance, after the disappointments relating to President Trump's efforts to repeal and replace ObamaCare, all eyes will be on tax reform. Should Republicans and the White House suffer another setback, investor psychology – which is buoyed by expectations of change – could decline. Separately, earnings growth expectations, which currently stand at 10%+ for the S&P 500 are likely to be revised down. While this is not unexpected or unusual, a significant downward revision could spark a correction. As we stated earlier, for now we are maintaining our optimistic view and believe markets could rally further as economic improvements, reform and corporate earnings growth all provide a strong backdrop and reason for this optimism.

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Bloomberg Markets | March 2, 2017
Pursche Sees a Bell-Curve for Market

CNBC | March 2, 2017
If Trump fails to deliver on a corporate tax cut, expect a 10-15% correction, says expert

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