Noland's Notes
A Publication of LBWM

Noland's Notes 2017 Re-cap / 2018 Outlook

For those of you who are new clients, or those who are reading this note for the first time, I should explain. Each year, I sit and write you a note. In it, I try to analyze the prior year in my own words so that you have an idea of what environment your accounts were active in. I also try to give you an idea of how I see the investment landscape as we enter the New Year. In our brief discussions throughout the year time does not permit me to extol all of my thoughts and analysis with you. My hope is that in the 20 minutes or so, it takes you to read it my note helps you gain a better feel for how we here at Left Brain Wealth Management view the investment climate and how we think about Investment Markets, in general. ***Welcome aboard or welcome back and I welcome your feedback!!!***

(Before I forget, feel free to send our note to your inner circle of family, co-workers or friends should you think it appropriate. Though we write this note for you, should you think of introducing us to your circle this will be a good way for them to get a "feel" for our work). Let's get started:

Here are the official returns from 2017:

Dow Jones Ind. Average (U.S. Stocks)	24,719.22	**+28.5%**
S&P 500® (US. Stocks)	2,673.61	**+21.7%**
Russell 2000 (Small Companies)	1,535.51	**+14.6%**
MSCI EAFE® (Intl Stocks)	2.050.79	**+25.1%**
MSCI Emerging Markets	1,158.45	**+37.3%**
MSCI REIT (Real Estate)	1,157.27	**+3.5%**
Aggregate U.S. Bond Index	2,046.37	**+3.5%**
Gold	1,309	**+12.8%**
Oil	$60.40	**+2.5%**

(source: YCharts)

(For those of you wishing for the abridged version of this note, feel free to jump straight to the summary which starts on page 13. For everyone else, we have lots to discuss it has been a whole year. So, let's jump right in!!!)

All Trumped Up-Again!!!

I'm sure 2017's investment returns surprised most people. If not everyone, then they surely surprised a lot of folks. I say this because when the Presidential election results were tallied Stock Index futures were pointing to hundreds of points of decline when the markets opened the next day. This is also why we **NEVER** make investment decisions based on politics. **That is always a mistake!!** We had several clients call our office after the election to inquire about selling their holdings because they were afraid of what would happen since Trump had been elected. (*P.S. For those clients that absolutely insist on talking politics call our main office number and ask for Freddy!* 😀)

Here's what I wrote in last year's note in this same section **"All Trumped Up!!"**

"Any discussion of the current investment or economic outlook would be incomplete without mentioning the election of our new President and what that might mean. Normally, politics have very little sway in our view of the investment landscape. We are paying more attention to this outcome though because of what the vote signals. We could see a big change in sentiment and go from a country playing defense to one playing offense."

Believe it or not, it looks to us like this movement is only getting started. Remember, Congress just passed the sweeping tax package and within hours many corporations were announcing plans for returning cash to stakeholders (Dividend Increases, Raises for Employees, Bonuses, etc.). This is likely just getting started, pretty soon you'll start hearing about M&A (Mergers & Acquisitions) activity and the like.

What I find most interesting is that this tax reform package has been telegraphed since the election. And yet, it looks like corporate boards and CEO's were still surprised it passed. If they were surprised it passed then its doubtful that they did any earnest advance planning for how they'd respond, or what actions they'd take. And, it got passed at the very, very end of the year. So, look for lots of activity this year as they'll have had time to thoughtfully review the financial impact to their businesses and then decide how to respond.

There are many companies that'll benefit, but the two types that stand out are: Multinationals (those that generate revenue around the world -Apple, Facebook, Coke, etc.) as they'll be able to bring back cash they've had trapped overseas, and companies that generate nearly all of their revenues here in the U.S. That is because they are hit with some of the highest corporate tax rates in the developed world. For a company that earns $100 million and has a 35% tax rate they end up with $65 million in earnings ($100m-$35m=$65m). With the new rates, if that same company earns the same $100m they are able to generate $79 million in after tax earnings with a corporate tax rate of 21% ($100M-$21M=$79M). That is a **20%** increase in earnings!!! All things being equal, this business is much more valuable. Since the earnings have improved, the stock market should value this business at a higher price!

Sizing up the Investment Climate

I am often asked what I think of the current investment climate. We think it is important for you to understand how we size up the investing landscape at any given time. Here is the lens that we view the investment climate through. The lens never changes, but quite often, the view does:

1.) Interest Rates- We've waited a long time. But, finally interest rates are on the move! The Federal Reserve raised the Fed Funds rate 3 times in 2017. The Prime Rate (What most consumer rates are based on) is up to **4.5%**. Unfortunately, CD rates (2% for 3 year CD's) and Money Market rates are still middling. The Fed intends to raise rates 3 more times in 2018! Of course, that will depend on how the economy performs this year. Interest rates have a big impact on investment prices, and normally it's an inverse one. So, as rates go up higher discount rates are used to determine asset prices. Imagine an entrepreneur has built a successful business with $1,000,000 in earnings and now wants to sell and move to Florida. In a low interest rate environment a buyer may value the business at 8 times earnings for a value of $8,000,000. But in a high rate environment the buyer may only be willing to pay 6 times earnings for a value of $6,000,000. Also, when rates are lower, its cheaper for companies to borrow money for productive activities like: Expansion, or buying a competitor, or buying new equipment. These activities have a positive economic benefit to the country.

Safe Bonds are also priced based on interest rates. If rates move too high then they'll compete with other investments for capital. Imagine if Government Bonds were paying 10% today then other investments, like stocks, or Real Estate would have to be very, very underpriced to be considered attractive. Whatever security we were considering would have to have expected returns well in excess of 10% to leave the certainty of a **10%** payment from Government Bonds. The good news is that although interest rates are on the rise, they are still historically unbelievably low. Currently, the 10 year treasury bond yields **2.6%** (as of year end 2017). The interest rate view is still very **favorable** at this time.

2.) Inflation- The Inflation readings are still very tame. But, I don't expect them to remain so. All of the increased economic activity from both businesses and households should start to awaken some good old fashioned inflation. Recall, one of the reasons the Fed has used unprecedented monetary policy was because of the lack of inflation! The only thing scarier than inflation to Central Bankers is **deflation!**

We now have the new tax framework, an improving economy and near full employment. Wages should start to increase, home prices are increasing, oil prices have moved up, too. All of these activities set the table for more inflation. There is an interesting debate going on in economic circles that pertains to this "missing inflation" phenomena. Some theorize that technology and the internet have permanently lowered inflation. Think about it. We can walk into any retail store, find something we like and compare the in store price with the online price, instantly. Retailers and manufacturers aren't able to raise prices like they once could. This lack of pricing power is one factor that is said to be affecting the inflation gauges. Also, with globalization labor and goods can be sourced from where they cost the least, and this too holds down inflation. It'll be interesting to so see which of these opposing forces wins the battle. So, we're on inflation watch. We'll call the Inflation view **Neutral**.

3.) Earnings- Finally, we got some earnings growth last year. In recent years, it was simply investors paying more for shares. The businesses hadn't grown, but investors were willing to pay more anyway. I remarked last year that this couldn't continue. That companies would need to deliver earnings growth. And did they! By mid-2017 S&P 500 companies had grown earnings by 19.7% year over year. The estimates are that they'll grow by 12% in 2018, too. They better. We just discussed the positive impact the corporate tax cut would have on bottom lines this year. We're calling the Earnings view as wildly **Positive.**

4.) Valuations- We all know that securities prices aren't cheap! They haven't been "cheap" since the economic downturn in 2009. The question is whether valuations are reasonable given our current environment with low interest rates, earnings growth, and mild inflation. Our answer to that question would be an emphatic **"yes"** for a lot of securities, but not all of them. Which is why we are no fans of blindly indexing (owning index funds). *We may discuss this topic in great detail in next year's Note. Stay tuned!* We'll call the Valuation view **Neutral.**

Return of the Dinosaurs

The Dinosaurs were the largest animals to have roamed the Earth. We'll exclude the Ocean faring Blue Whale. We're talking those that have walked the Earth. As we all learned in grade school, they died off about 65 Million years ago at the end of the Cretaceous. Where I think history and biology get more interesting is that although new species emerged after the mass extinction, animals never even came close to reaching the size of their fore-bearers.

The largest dinosaur to have ever lived is Patagotitan which roamed Argentina during the Cretaceous and tipped the scales at about 69 tons (the equivalent of 12 Elephants)!!! So, why are we having a National Geographic discussion in an investment Note? Good question.

It looks like we are living in the modern Dinosaur age in the investment markets. Here's what I mean. Take a look at **today's** largest companies by market cap:

Company	Market Cap ($B)
Apple	**$898**
Alphabet	**$775**
Microsoft	**$683**
Amazon	**$601**
Facebook	**$547**
Tencent Holdings	**$533**
Berkshire Hathaway	**$499**
Alibaba Group	**$488**
Johnson & Johnson	**$380**
JP Morgan	**$377**

What's fascinating is not only their size, but how much larger they are than their predecessors. Here's a look at the largest companies by market cap in **1999**:

Company	Market Cap ($B)
Microsoft	**$583**
General Electric	**$504**
Cisco Systems	**$353**
Exxon Mobil	**$283**
Wal-Mart	**$283**
Intel	**$271**
Nippon T&T	**$262**
Lucent Technologies	**$252**
Nokia	**$197**
BP Amoco	**$196**

The Wall Street Journal recently ran a story about which one of these giants would be the first to reach a $1 Trillion market Cap. The other fact I find fascinating is their current growth rates. Notice that the top 5 are technology or Internet related businesses. A fact we'll return to in a later section. I think they'll be growing in size for the foreseeable future. (That is, as long as the Government doesn't get too mettlesome and break them up). So, we could see multiple companies surpass the $1 Trillion mark!! To put those numbers in perspective, here is a selected list of countries that have economies below $1 Trillion of GDP (Gross Domestic Product):

Country	GDP ($B)
Turkey	**$863**
Netherlands	**$778**
Switzerland	**$669**
Saudi Arabia	**$646**
Argentina	**$545**
Taiwan	**$528**
Sweden	**$511**
Poland	**$467**
Belgium	**$467**
Thailand	**$407**
Nigeria	**$406**
Austria	**$387**
Iran	**$377**
Hong Kong	**$321**
Israel	**$318**
Philippines	**$305**
South Africa	**$294**
Ireland	**$294**

Why Left Brain????

From the time we named the firm, I'll bet we've received thousands of comments on it, mostly compliments at that 😀. And, I haven't grown tone deaf to them. So, feel free to keep'em coming! *(The plaudits that is!)* But, I've been traveling a bunch the last couple of years. I've been attending Investment conferences, giving investor presentations, etc. I'm still floored how often we get asked about the name of the firm. I was in Palm Beach in December for an important meeting with a group of potential investors. One of the gentleman there recognized me from a presentation we'd given him back in February. The funny thing is he had no idea what my name was but excitedly blurted out "Hey, Left Brain I didn't know you'd be here!" So, obviously it's memorable, too. I thought I'd add some levity to this note and explain why we chose the name. The Left Side of the Brain is responsible for: Calculations, Logic and Reasoning. That perfectly describes our daily activities. We pride ourselves on being independent thinkers here at Left Brain. We strive to keep things simple. We try to behave rationally. And most of all, we strive to invest in a deliberate manner and ignore the headlines and emotions of the day. When I considered what the name of the company should be, I felt strongly that the name was really, really important and should reflect the quality and activities of its' associates. So, now you know "Why Left Brain". We'll discuss the "How" did you come up with it another time.

Dividends

There are very few investment topics that spark more interest than dividends. There are literally hundreds of investment products that use dividends as a strategy. Dividends have always been a popular way to choose stocks. But, the unbelievably low interest rate environment since the 2008-2009 financial crisis has galvanized an enormous amount of money into companies that pay dividends. If investors can't get income from bonds, they figure they'll get it from stocks that pay dividends. I understand why investors do it, but that doesn't make it a great strategy. We think it is a really short sighted way of investing, generally. Here at Left Brain, we DON'T chase dividends! That is, we are dividend agnostic. If it's a growing enterprise in an industry that produces attractive returns on capital with an attractive valuation, we may buy the shares. If they happen to pay a dividend, then so be it. We'll illustrate our point using Big Company A:

Big Company A	Revenues	$1,000,000
	Costs of goods	$200,000
	Payroll	$200,000
	All other expenses (Rent, Sales, Admin, etc.)	$200,000
	Pre tax earnings	$400,000
	Income tax at 30%	$120,000
	Net Income	$280,000
	Dividends paid	$125,000
	Dividend yield	4.1% ($125,000/$3mill market cap)
	Share Price	$100
	Shares Outstanding	30,000

Dividends are paid out of after tax income. So Big Company A has paid income tax first on that dividend before it pays it to Mrs. Shareholder. And, guess what happens when Mrs. Shareholder receives that dividend? If you guessed that she then pays taxes on that same dividend, you'd be correct. This is referred to as **"double taxation"**. (The accountants are probably finger wagging noting that Mrs. Shareholder won't pay the dividend tax when it is paid into her retirement account.). That is correct, but remember all the money in retirement accounts has to be distributed, eventually. And guess what? Those distributions occur at ordinary tax rates. Qualified Dividends are taxed at a special rate when they are paid into taxable (non IRA/401k) accounts. So, those retirement account holders are swapping a preferable rate for ordinary income tax rates. **Not ideal!**

So, let's look at why companies pay the dividend and what they could do with the cash instead. It's a great source of pride for companies to have paid a dividend for a very long time. There is even an industry publication (Mergent's) that showers accolades on companies when they reach a certain length of time with uninterrupted dividend payments. These companies are eligible for inclusion in indices that use that criteria to create investment products (Mutual Funds and ETF's). Guess what happens to the stock price when they are added to these indices which forces buying of their shares by these funds? Guess who benefits most when the share price rises? *Hint: All those individuals whose company titles start with the letter "C".* Companies that are already on the list of supreme dividend payers are remiss to stop making the payments. The signaling to shareholders doesn't go over well when they cut, or heaven forbid, they eliminate the dividend. Some companies go through extraordinary measures to keep up appearances (Selling healthy businesses, borrowing money, etc.).

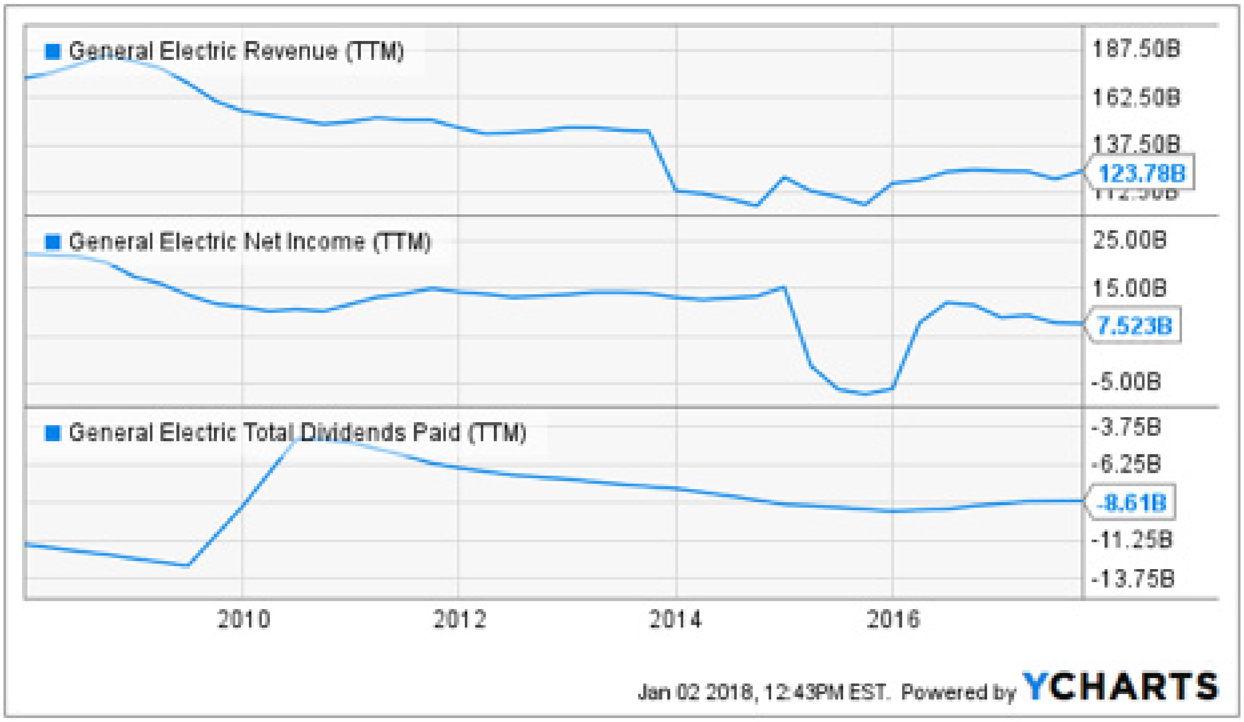
I get why investors like to receive the dividend check in the mail. But, In some cases those dividend payments can become an anchor to the companies that pay them.

As a long term shareholder of a profitable growing enterprise we'd prefer our CEO's keep the cash and reinvest if for us. We don't mind receiving dividends as a residue of leftover cash the company can't reinvest (Starbucks, Las Vegas Sands and Apple come to mind). But, we'd rather they not return to us money that we've given them to compound on our behalf. We feel fortunate to have Reed Hastings-Netflix and Jeff Bezos-Amazon keeping our cash and compounding it for us.

As a shareholder you should consider what else that business could do with the cash if they weren't giving it back to you! A $1 bill turns into .60 by the time you are able to spend it *($1 before corp tax turns into .75 given a 25% tax rate. .75 turns into .60 with a 20% personal tax rate).* So, now that you have this cash in your pocket you need to decide what to do with it. There are two choices: Spend it, or invest it. If you, as an investor, are re-investing the cash then you're taking .60 pieces that used to be $1 Bills and buying new securities at full price with deflated dollars. **Not Ideal!**

This year's poster child for gross dividend mismanagement is none other than the bluest of blue chips and dividend aristocrat, General Electric!

Here are a summary of GE's financials going back 10 years:



There is no way GE should have been paying that hefty dividend for that long while their businesses were in rapid decline. They even had the audacity to raise it in recent years. Wanna take a guess why the board decided to raise it? And, I'm betting that most shareholders saw the dividend and the increase and shut their eyes to the share price and to the conditions of the underlying business. The simple thought is "Well, if they are paying me my dividends, they must be doing fine."

Over the last five years GE spent over $40 Billion dollars paying dividends. Now, imagine that instead of paying the dividends, they either: bought back stock, used the cash to invest in shoring up their existing businesses, or they could have made a strategic acquisition that would have improved their competitive positioning in an adjacent market. The earnings power of GE would have been improved had they taken any of those actions with the **$40 Billion** they mailed shareholders in dividends. As shareholders, we want the earnings power of our holdings to grow. The board can decide what to do with the increased cash flow later.

I'm betting Thomas Edison (GE's founder) is hoping for a seance so that he can give the instruction to smack Jeff Immelt (GE's recently ousted CEO) upside the head!

Remember, we can always create our own dividends from the shares we own. Let me explain: As a Registered Investment Advisory firm, Netflix is one of our largest holdings. Many clients have seen their shares appreciate over 3 to 4 times our purchase price. And guess how many times Netflix has paid a dividend during those years? If you said **0** you'd be correct. Now, if a shareholder needed cash they could create their own dividend by simply selling shares. The price today is roughly $190 so a holder of 100 shares ($19,000) that desired a 4% dividend simply needs to sell 4 shares.

(We custody with TD Ameritrade Institutional who charges $6.95 per trade so the cost is negligible).

As long term shareholders, we are thrilled that Netflix is keeping that cash. Here's why: Netflix is investing heavily in the business by growing their international subscriber count and building its' library of original programming which is really expensive. But with a larger subscriber base, the costs become cheaper on a per subscriber basis and once the up front investments are over, the free cash flow will grow dramatically!! Even during this period of heavy investment, the Returns on Equity (ROE) for Netflix are expected to be 15%-20%. (Remember, before Netflix started the heavy investments in streaming the ROE's were over **50%!!**) So, by letting Netflix keep the cash, they are compounding it for us internally at 15%-20% **PRE-TAX!!!** This isn't a commercial for Netflix. Nor is it an investment recommendation. I have chosen to use Netflix simply because it is a popular company and happens to pay no dividend, but its shares have rewarded investors because they are reinvesting their cash to grow their earnings power. Take a look at how returns compound when left at a company compounding at 15% internally.

Earnings		**Stock Price if shares trade at a 20 P/E ratio**
Year 1	$1.00	$20
Year 2	$1.15	$23
Year 3	$1.32	$26.40
Year 4	$1.52	$30.40
Year 5	$1.75	$35

Most investors would not be ecstatic to do a simple swap of their $10 bill for 2 $5 bills. It tickles me how giddy they are then to swap their $10 Bill for a $5 Bill and $2 Bill when you add the word 'dividend' to the transaction!

My brother and I grew up on the mean streets of Detroit in the 70's and 80's. There was a saying we all used to describe those who were acting like something or somebody that they weren't. It was OK if you were a cool kid or a jock (athlete). It was also OK if you were a nerd or a non athlete. But, it was not OK if you were a nerd simply acting like a cool kid or had no athletic prowess but wore the team jersey on gameday and hung out by the players lockers as if you were on the team. If that was the case, you were said to be "perping". Perping is slang for perpetrating a fraud. Those that were "perping" were treated harshly. (kids can be so cruel). So, it should be with those companies who shouldn't be paying dividends, but are so that they can be given higher share prices and be included in the group of the really good businesses that can really afford to pay them. Here at Left Brain, we will call them out and deal with them harshly! We're not only calling out GE, we'd add Big Blue-IBM and Exxon to the 'Hall of Shame', too, for their recent dividend policies!

You Big Dummy!!

Sanford and Son was a sitcom that debuted in 1972. The main character, Fred Sanford, was played by comedian, Redd Foxx. When he got upset with his son, Lamont, played by Demond Wilson, he'd often ball up his fists and yell, "You Big Dummy!". Here, we profile our less than brilliant moves in hopes that they'll prove cautionary for you and cathartic for us. This is the second entry into this column. I made the first entry in the 2015-16 Note when I profiled my attraction to bonds in the coal sector that didn't end well. While nothing that dumb has happened this past year, I have taken note of a different mistake. This is also something I have noticed clients and investors make all too often. That is, selling shares when they aren't "acting right". You know what I mean. Nowadays, it's very easy and tempting to check securities' prices often. Especially when an investor retires, they have much more time to dedicate to looking at every line item on their account statements. Investments 1-9 have all appreciated nicely. They are all black. Then there's holding #10. It has actually gone down. There's got to be something wrong with that one. Let's sell it!!! That's human nature. And usually, Net Worth negative. I've fallen victim to this mistake, too. (Probably in response to investor requests to explain a holding showing a loss).

The Investment markets are sometimes a very strange place indeed. Imagine Company X earned $5 per share last year and the shares were priced at $100 (a P/E of 20). Now fast forward to this year. The shares have fallen to $80, while earnings have grown to $6. The P/E is now a little over 13. However, if the shares were purchased last year, they're showing in red on the statement. Human nature kicks in and signals that we should do something. "Something is wrong with this company, right?" Maybe, or maybe not. In many cases, this stock will play catch-up at some point. The timing of the "catch-up" is not always predictable, but it'll happen. As Investment Advisors there are few things that are more bothersome to us than doing the homework on a business and developing an outlook on it, having the business perform according to plan (Sales, Earnings etc.) and the stock price go nowhere. Then either because of impatience or investor requests to explain the negative price action, acquiesce and sell Holding #1 and replace it with Holding #2 whose price action has been moving up, up, up. This happened last year when we replaced shares of Interactive Brokers and Dollar Tree. I've always said the only thing worse than buying shares at $100 and watching prices melt to $10, is having sold at $10 and watch while (on the sidelines) the price levitates to **$100!!!!** The takeaway here is that it's much more intelligent to monitor how the business is performing and not focus on how the stock is performing. **They're different!!!!**

A prime candidate for the "Why don't we replace it cause it ain't acting right" treatment today is Starbucks. The shares are trading at the same price (mid 50's) as they were in 2015. However, if we look at the drivers of the business, they've improved markedly. Here are the details:

2015 Revenue P/Sh $12.66	2017 Revenue P/Sh $15.32
2015 Earnings P/Sh $1.82	2017 Earnings P/Sh $1.97
2015 Dividend P/Sh $.64	2017 Dividend P/Sh $1.00
2015 P/E 31	2017 P/E 29
2015 PEG ratio **4**	2017 PEG ratio **.75**

(PEG ratio is Price/Earnings to Growth. Lower is better!)

As our very long tenured clients will recall, we bought lots of Starbucks shares after the 2009 market sell off at prices ranging from **$8-$12** per share. So, they've appreciated handsomely since then. But, they've clearly been left behind for several years. The temptation then is strong to do "something". The better "something" to do is likely to add to shares if we own them, and buy them if we don't. But, the most correct "thing" to do is often to do **"No-thing"**. Like the old saying goes "Buy if you can, hold if you can't". I wouldn't be surprised one bit to see Starbucks do quite a bit of "catching up" in 2018!

The New Staples

Not that Staples. I'm referring to companies in the Consumer Staples sector. These are well known companies that sell everyday products that generally don't depend on how well the economy is doing. They are also known to pay healthy dividends. In past stock market sell-offs, their shares have tended to fall less than other businesses whose revenues and earnings fluctuate more given those businesses economic sensitivity. The Consumer Staples are considered defensive. Here are a few of the more popular holdings of the Consumer Staples ETF (XLP):

Procter & Gamble	(Crest toothpaste, Charmin and Bounty paper towels)
Cocal-Cola	(Coke, Dasani, Nestea)
General Mills	(Chex, Betty Crocker)
Kraft Heinz	(Kraft, Heinz, Oscar Mayer)
Mondelez	(Ritz, Nabisco)

Now, I'm going to posit what I believe will be a very unconventional theory. It is my belief that the Dinosaurs I referenced earlier will become the new Staples! As my 19 year old keeps reminding me, the world is changing. You see we aren't eating cookies, crackers, cakes and bologna like we used to. Nor are we guzzling cans of Coke like our grandparents did. We aren't even going to the supermarket as often. But, who can imagine life without their cell phones for one day? Heck one hour. For millenials that's one minute!!! Have you ever left the house and left your cell phone on the counter? Who can imagine life without the internet? A day without your tablet, not being able to use your PC, or not logging on to Facebook, or not being able to search the web, or shop online. In today's society, these activities are absolutely fundamental to our way of life. In the next downturn, *(there will be a downturn at some point),* these Dinosaurs will continue to generate steady revenue growth and they are in great financial shape. The share prices may fluctuate, but I doubt very, very highly that the actual earnings power will decrease in the next downturn.

So, what you'd see is somewhat lower share prices in the short term, but a furious snap back once the markets settle down. Yes, I am nominating the Dinosaurs as the new Staples in the next economic downturn. They have steady revenue and earnings growth, have wonderful balance sheets, and in many cases pay dividends to boot (Google, Microsoft, Apple). **Just remember, you read it here first!**

Summary-Our 2018 Playbook

We've had very strong investment returns this past year. I'm sure that has surprised most investors. After Trump's surprising Presidential victory, I didn't hear many "so called" experts calling for that. **Except us!!** (See last year's Note). We are expecting increased economic activity and strong corporate earnings in 2018. Interest rates are still low and valuations are reasonable. In last year's Note, I mentioned how attractive Emerging Markets looked and that they'd do well in 2017. That proved prescient as the Emerging Markets Index (Brazil, Russia, India China) returned **37.3%**. And with a 3-5 year EPS growth rate of **17.6%**, and a forward P/E ratio of only **14.7**, they still look attractive to us. They have still under performed the S&P by 109% over the last 10 years, so they are still playing catch up. This Emerging Markets bull run could be much more powerful than those in the past as conditions have improved mightily. They have learned from past boom/busts cycles. More of their debts are denominated in their own currency instead of using U.S. dollar pegs or issuing debt in U.S. dollars (this has been the cause of many past emerging markets crises). We still have the political risks (corruption scandal in Brazil, graft in India and those Russians!), but economically, they seem to "get it". So, we expect Emerging Markets to post good returns again in 2018. We are also nominating the Energy sector as the comeback kid of 2018.

For the first time ever, we have synchronized worldwide growth. We have had a nice rate of growth here in the U.S. while economies and markets, the world over, are "melting up".

The new tax legislation is very beneficial for U.S. corporations.

With the new tax package, having just passed at the very end of the year, Corporate CEO's didn't have much time to make plans or strategize how they'd respond. So, we expect lots of announcements about how these corporate beneficiaries will use the extra cash. We expect to see more dividend increases, more stock buybacks, plans for expansion and lots more company mergers and acquisitions. But, most of all, since companies will be able to keep more of what they earn because of the lower tax rate, investors should place a higher valuation on these businesses because of their improved earnings potential. There are two other possible drivers of equity prices this year. With interest rates on the rise, this may be the first time in many, many years that "safe" bond owners see significant losses. If that happens, you could start to see the long awaited rotation from bonds to stocks. The other possible driver of money into stocks could come from holders of cash as they experience FOMO and react. It's surprising how many investors we speak with who are still sitting on huge stacks of cash. Somehow, the last sell off is still fresh in their minds and they can't seem to hit the "buy" button. Imagine how painful that must be to be sitting on the side imitating a double dutch jump rope move and never jumping in? If FOMO hasn't kicked into over drive yet, maybe this next surge will finally make these fence sitters jump in. Oh , FOMO (Fear of Missing Out), it's a real thing. Look at those Bitcoin prices! You put it all together and the stock market could really "hot up" again this year!!!

As always, I will be looking for opportunities to profit this year and in the years ahead!!!!