



ACCELERATION AND GROWTH

We see more gains ahead for investors in 2017. It will come with its share of Market turbulence no doubt. But still there is a lot to like about this aging Bull. After 2 years of an earnings recession, **Corporate America is seeing an acceleration of growth again. The US economy is revving up too.** Anticipated tax-reform, new infrastructure spending and pro-business policies in Washington

have the Stock Market engines running again. They were actually moving even before the election. To understand how to think about 2017, it's important to remember the year that just passed.

2016 YEAR IN REVIEW

2016 was a year for the history books, for so many reasons. It finished with the DOW and S&P reaching new all-time highs, but it didn't come without its surprises and bumps in the road. The biggest surprise perhaps was the Trump victory. Few predicted this. Another surprise was the British vote to leave the European Union. Both results led to immediate sharp selloffs and both were very short-lived. The Cubs won the World Series for the first time in over a century. It was a big year. It was a stressful year.

WORLD STILL RUNS ON CRUDE



In case you forgot, 2016 did not begin well for investors. In fact, it was the worst start to a year ever for the Stock Market but it turned out to be the best one in years. It was

a volatile one. Energy was the best performing sector in 2016, rising over 20% on the year. But it began 2016 in free-fall as crude prices collapsed to \$26. The price of Oil and the Stock Market have a strong correlation. Falling oil prices put a great deal of stress in the financial system, which was felt around the globe. But the best cure for low prices is low prices. In the Spring, Oil turned around sharply higher and rallied the rest of the year, taking stocks with it. The DOW made a run, reaching new highs towards 20,000 for the first time.

WORLD STILL RUNS ON CRUDE CONT.

In our work, **there is nothing ever Bearish about hitting new, all-time highs.** The key is the underlying Market health and how it responds. We believe the engine is strong under the hood. What makes us more Bullish is the fact that despite these all-time highs, most people are still cautious if not negative. This continues to be the most hated Bull Market in history.

THE BALLOT BOX



2016 was a year about voting. The spirit of Nationalism took off around the globe. Increased terror attacks, never-ending war and the feeling of being

left behind sent voters to the Ballot box with passion. **People around the globe are tired of the status quo.** The British referendum vote made it clear. So did our Presidential election. The calls were loud: "Britain First", "America First". Protectionism is the theme. Globalization is under assault. Free trade is threatened. It's only the beginning. Geopolitics are recalibrating and the leadership is drastically changing.

There will be more votes cast in 2017. France has an election in the Spring. Germans vote in the Fall. The French are very likely to follow the British trend toward protectionism. The Germans likely will not, as Chancellor Angela Merkel is still expected to win. But Merkel is much weaker now at a time where Europe needs her to be strong.

A COMPLEX WORLD



There are real risks on the global front. There have been all along. The British are expected to begin the formal exit from the European Union in the Spring. There will no

doubt be bumps. President Donald Trump presents many unknowns. Relations with China and Russia are critical and very unstable right now. China has its own leadership transition this Fall. There will be no leadership change in Russia. **The international community doesn't know what to think of the US, still the lone Super Power.** Under Trump, the US is considered the greatest Geopolitical risk to Europe, NATO and the rest of the world. How American foreign policy takes shape in 2017 will go a long way to dictate the temperature of planet Earth.

LOOKING GOOD IN 2017



This remains an exciting time for investors but it certainly comes with risks. That's generally where opportunity lies. Stock Market

leadership changed so much in 2016. It rotated from sector to sector and awoke some sleeping giants.

"AFTER YEARS OF PUNISHMENT AND UNDERPERFORMANCE, THE BANKING SECTOR WOKE WITH A VENGEANCE."

At the top of this list are Financials. After years of punishment and underperformance, the banking sector woke with a vengeance. The prospects for higher interest rates and a strengthening economy are the key ingredients for revenue growth and higher stock prices. Financials are loathed, and have earned their poor reputations to a large extent. But today they are less mean and their balance sheets are quite clean. Financial stocks have done nothing for 5 years. We see Financial leadership continuing in this next stage of this Bull Market.

OLD SCHOOL BACK IN VOGUE



The industrial sector came back to life last year and we see the strength continuing. It's like the 1980's all over again. A national infrastructure bill would

certainly accelerate demand for heavy machinery and industrial equipment. **Bridges, tunnels and underground pipes are in desperate need of upgrades. Growth overseas is picking up too.** Industrial metals and raw materials are back in hot demand. America is making more stuff at home now than previous years; that's good for jobs. Housing is holding up well, despite a recent cool-down in pricing. That's good news for potential homeowners.

SCIENCE AND MEDICINE

It may come as a surprise but the Health Care industry was the worst performing sector last year. It actually closed in the red. We see that changing. It's been a tough go for Biotech's and Pharmaceutical companies which were easy targets in an election year. Drug Pricing is a serious issue, which put massive pressure on their stocks. There have been significant advancements in the treatment of cancer, Alzheimer's and chronic pain among others. Innovative Science is getting better everyday and it is definitely investable.

ENERGIZED

The price of oil doubled from its February low and we see it going higher still. The Organization of Petroleum Exporting Countries (OPEC) agreed to a major production cut to support oil prices. If, and I repeat, IF they actually do what they say they will, the price of oil could see \$60+ this year. As the economy improves, demand for energy will too. The Trump administration appears to be very supportive of American energy independence. **American innovation in technological advancements is a significant advantage.** It's also a good source of high paying jobs. Energy investments should continue to do well in the new year. We still see a place for renewables, but it is a longer-term investment theme.

AI FOR EVERYONE



When you think growth investments, you naturally think Tech. It is just remarkable to sit back and think about all of the innovative devices in our daily lives that didn't exist even a decade ago. The iPhone isn't yet 10 years old, but a big birthday is coming this year. The hot themes for 2017 are found in Artificial Intelligence (AI). It comes in the shape of drones and driverless cars. They're called Alexa and Watson. They build nests and they connect the world. **They're blowing our minds with possibilities and capabilities.** They're changing the world. Unfortunately so is hacking and cyber warfare. We have been investing in cyber security for years and we will continue. It is all extremely investable.



One of the primary reasons the US economy is accelerating is because the American Consumer is spending again. Remember, nearly 70% of GDP is Consumer spending. The savings rates has risen of late, as Americans really tightened their wallets the last couple of years. That's changing. With the Stock Market at all-time highs and 3 years of strong Housing, Americans are feeling more confident and are spending more. They're still selective in purchase habits. Americans are traveling again, particularly with

the Strong Dollar making international trips a relative bargain. Americans are eating healthier, which has food companies adjusting their approach. The younger generations are consuming content in different ways. The cable company and the phone company have been deemed obsolete to them. They've cut the chords and go straight to the web for the same programs and new style shows. They watch TV without a TV. Think about that for a second.

Buying online with mobile devices continues to grow. It's a trend that just won't reverse, and traditional retailers keep scrambling to keep up. We continue to focus on investments that benefit from this mobile trend. In reality, every consumer company has become a Tech company. They've been forced to. We do see some value in beaten up traditional retailers that we believe will be survivors. They are synchronizing their physical stores with their online store. It's a contrarian call, but we find a few retail stocks compelling for 2017.

We've written a book!
Investing from A to Z
Coming soon.



INVESTING
FROM
A TO Z
by Mike Frazier

CHARTING

One of the most important aspects of utilizing Technical Analysis, or Charting, in our complementary approach with Fundamental Analysis is the perspective charts provide. We said in last Fall's Newsletter *"The last 4 corrections within this Bull Market have all been quite quick. All of them managed to insert fear back in the Market, suffering through double digit percentage price losses. This is exactly what corrections do. Unfortunately living through corrections real-time is never fun, but by looking at recent examples, they are a necessity to go through to continue a longer term Bull Market. Corrections build a stronger base from which the Market can ultimately seek new highs."*

The good news headed into 2017 is we just lived through that, and the Market is now making new highs again! The correction from late 2015 and into early 2016 was exactly what the Market needed. We survived. Our hedges, large cash and options protection did a great job weathering that storm. The updated chart below shows our projection for the upcoming year and next part of the bull cycle. 2500+ on the S&P 500 this year is well within the realm of possibilities on the charts. As always when the facts change, so do we, being dynamic with our analysis is what we pride ourselves on.



CONCLUSION



We see more gains ahead for investors in 2017. The Market choppi-ness that we've become accustomed to will continue. Domestically, things seem to be settling in and in good shape. There are plenty of risks abroad which we are paying close attention to. But we still see plenty of green pasture for this aging Bull to run. It's a stock picker's Market. We love it. We're stock pickers.