EverGuide
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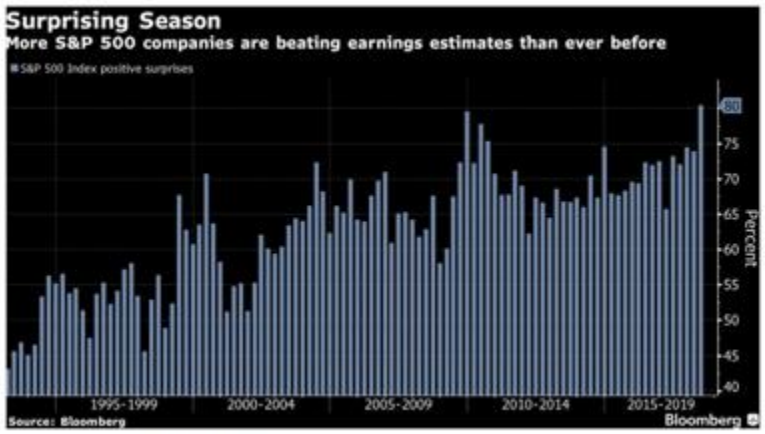
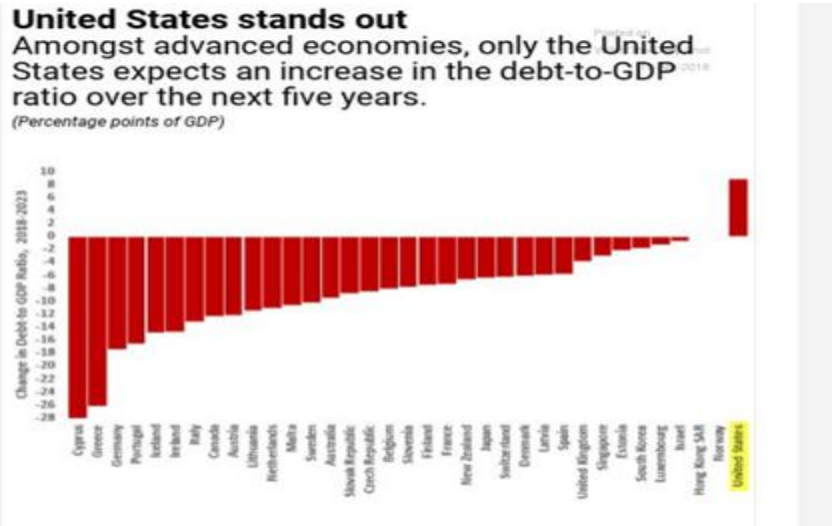
Investor Update

April was an interesting month that started off poorly only to recover slightly throughout the rest of the month. As we look through the different markets they also continue to remain mixed with the S&P 500 posting a small gain, Bonds were lower by about 1%, Dividend Stocks were down slightly, and Oil rallied over 5%. Without a clear market leader, the market as a whole remains directionless.

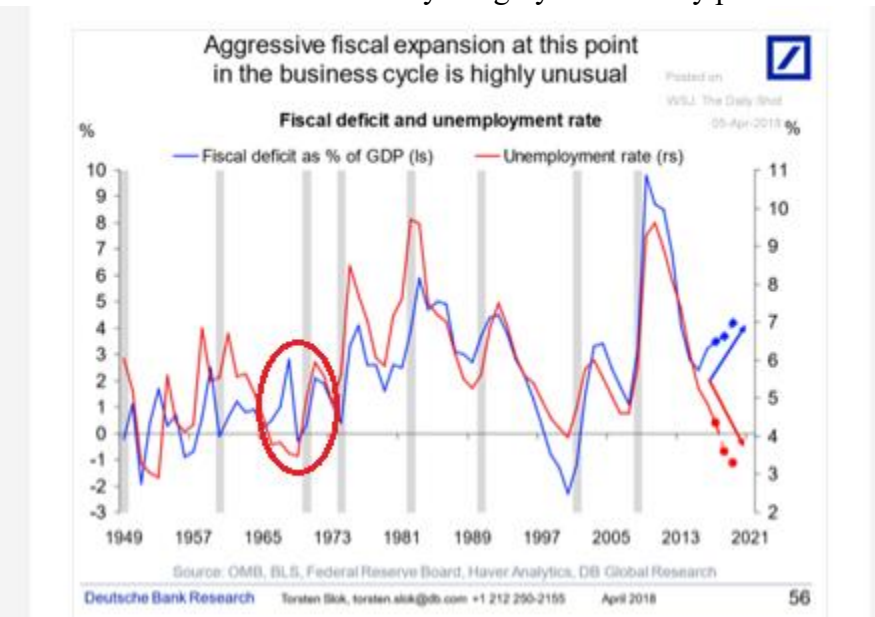
Last month we mentioned that earnings should provide a boost to the market. Overall, the market has stabilized and moved higher. However, there is some disappointment that the market is not significantly higher as we have seen the best earnings ever as shown below. There are several reasons for this, but the simplest explanation is a view that maybe this is as good as it gets.



Even though tax reform is not in the headlines anymore the effects are still being measured. We had alluded to the fact that while it is a short term boost, the long term implications might not be as good as expected. The chart below really puts this into perspective as the US is the only country expected to have higher debt to GDP ratio over the next five years.



The last chart furthers the discussion on the timing of the tax cuts and fiscal stimulus. It is unusual to take on debt at a time when unemployment is so low. In fact, stimulus is most effective during a downturn with the expected increases in the economy offsetting the downfalls of new debt. The last time we did this was in the late 1960's which was followed by a highly inflationary period of the 1970's.



As we move forward, our view has not changed much. We expect the market to find a footing and continue to move higher in a "two steps forward one step back manner." Strong corporate earnings and a good economy will battle with higher bond yields, inflation, and contracting multiples. We expect companies that are value oriented and have strong balance sheets to do better as inflation will crimp margins and borrowing costs increase.

If you have any questions about our current portfolio positioning please contact me at 908-376-3041.

Sincerely,

Mark R. Painter, CFA