Weekly Market Commentary
May 8, 2017

The Markets

Is it complacency? Exuberance? Uncertainty? Exhaustion? Insight? Intuition?

Last week, all three major U.S. stock markets gained value and two reached new record highs. On the face of it, that's great news for stock investors. However, if you look below the surface, the markets' upward trend may have you scratching your head.

Barron's reported:

> "That the S&P would hit a new high was all the more surprising given the lack of reaction to major headlines throughout the week. On the plus side of the ledger, Congress managed to avoid a shutdown, while on the downside, President Donald Trump tweeted that the U.S. 'needs a good shutdown,' and the Federal Reserve appeared more hawkish than prognosticators had been prognosticating. Nothing. Then there's the prospect of a shocker in the French election over the weekend, though the pro-Europe candidate Emmanuel Macron is widely expected to beat the more-radical Marine Le Pen. Yet here we are. 'It's like the market took Novocain and is numb to everything,' says Thomas Lee, head of research at Fundstrat Global Advisors."

It may be investors give more weight to company performance during the first quarter than to other factors. So far, 83 percent of the companies in the Standard & Poor's 500 (S&P 500) Index have reported first quarter earnings (earnings measure a company's profitability). Three-fourths of the companies reported earnings were higher than had been estimated, reported *FactSet*.

Strong earnings show companies have performed well. Price-Earning (P/E) ratios help investors gauge whether a company's stock, or a stock index, is a good value. The P/E ratio indicates the dollar amount an investor may pay to receive one dollar of a company's or an index's earnings, according to *Investopedia*.

Last Friday, the trailing 12-month P/E ratio for the S&P 500 Index was 21.9. That's quite a lot higher than the five-year average of 17.4 or the 10-year average of 16.7.

At the same time, the forward 12-month P/E ratio for the S&P 500 Index was 17.5. That's also a lot higher than the five-year average of 15.2 or the 10-year average of 14.0.

So, why are highly valued markets moving higher? It's a puzzle.

Data as of 5/5/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.6%	7.2%	17.0%	8.4%	11.9%	4.7%
Dow Jones Global ex-U.S.	1.1	10.7	14.9	-0.7	3.9	-1.2
10-year Treasury Note (Yield Only)	2.4	NA	1.8	2.6	1.9	4.6
Gold (per ounce)	-3.0	6.0	-4.1	-2.0	-5.2	6.0

Bloomberg Commodity Index	-1.6	-5.5	0.0	-15.5	-9.7	-7.1
DJ Equity All REIT Total Return Index	-0.3	2.7	3.9	9.2	9.7	5.0

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

IS THE U.S. GOVERNMENT WELL RUN? Stop rolling your eyes. *The Economist* reported Steve Ballmer, former head of a large tech company, has been working on a new project – completing Form 10-K for the United States of America. The project is called *USA Facts: Our nation, in numbers*.

If you're not familiar with Form 10-K, it is the global gold standard of corporate disclosure. United States regulators require public companies to provide comprehensive overviews of their businesses and financial condition each year, including audited financial statements. The information is provided on Form 10-K.

USA Facts aggregates publicly available data from federal, state, and local governments. It then groups the data into four operating divisions based on the 'missions' described in the U.S. Constitution:

- Establish justice and ensure domestic tranquility
- Provide for the common defense
- Promote the general welfare
- Secure the blessings of liberty to ourselves and our posterity

After reviewing *USA Facts*, *The Economist* wrote:

> "Governance is poor. The country is not managed using a coherent taxonomy. So, for example, the House of Representatives, the Senate, and the White House each split the job of running America into roughly 20 operating divisions. But their categories are different, meaning crossed wires and insufficient accountability…"

The findings aren't much of a surprise. The government does not compare favorably to corporations. It has a profit margin of negative 3 percent. (The S&P 500 average is 8 percent.) It invests more in the future than most companies. Research and development and capital expenditures are 12 percent of revenue. (The S&P 500 average is 8 percent.) Debt is 289 percent of tax revenues, which are a proxy for sales. (The S&P 500 average is 77 percent.)

If you'd like to review the numbers, visit USAFacts.org.

Weekly Focus – Think About It

"Ignorance and fear are but matters of the mind – and the mind is adaptable."
--Daniel Kish, President of World Access for the Blind

Best regards,

"Your Beacon Wealth Management Team"

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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Sources:
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