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2017 First Quarter

Facts:

- GDP grew by only 0.7% in the first quarter of 2017. It was slowed by consumer spending only increasing by 0.3%. However, the bright spot is that business spending on structures and equipment grew by 10.4%.

- Corporate earnings growth (some say the real driver of the stock market) grew for the third consecutive quarter after five declining quarters.

- Manufacturing indices are growing globally. The U.S. Production Manufacturing Index (PMI) has reached a 30 month high; Japanese Manufacturing is at a three year high; and the European PMI is the strongest in 71 months.

- Confidence levels are running high: U.S. Consumer Confidence Index is at a 16 year high; U.S. Small Business Confidence Index is at a 30-year high; and the CEO Economic Outlook Survey for Q-1 2017 is the highest in three years.

Source: Voya Global Perspectives, March 2017

Executive Summary

- *The start of the Trump presidency has been marked by good economic data and high confidence, while media coverage has reflected lingering uncertainty.*

- *Rock solid fundamentals — the strongest quarterly earnings outlook in five years — has provided a sustainable foundation.*

- *Despite stumbles, the administration's pro-business posture, exemplified by a focus on deregulation and tax reform, has been reassuring to markets.*

- *Foreign markets have been robust, as broad global diversification hit its stride.*

Source: Reprinted from Voya Global Perspectives

Markets Care More About Economics Than Politics

Compare all of this "good news" with what you hear / read / believe to be true. The numbers are numbers and one can presume them to be true. They can be fact-checked and measured by multiple sources. The "confidence" indices are "feelings" by various groups. These too can be measured by asking people about how they "feel" about the future.

This is where the science can become questionable. Psychologists Daniel Kahneman and Amos Tversky studied the Law of Small Numbers to realize that samples or survey results may provide inaccurate results if the sample size is not large enough. Often people erroneously assume that a smaller sample can reflect the truth that would be proved by a sufficiently larger study. I am not trained in psychological studies to know how much is enough. However, I do know enough to be a bit of a skeptic and perhaps not take the "evidence" at face value.

So, what am I to conclude?

We all have our own personal narrative running in our head. Some folks are of the "glass half-full" ilk while others believe "the glass is half-empty."

The facts would reflect that current economic factors are ok, to good and probably getting better (especially if companies are spending money on physical plants and equipment to better accommodate longer-term growth). I would also add that the 10% gain of the S&P 500 since the November election (remember, the stock market is not the economy) may be to at least some extent fueled by anticipation of tax cuts, reduced regulation, and infrastructure spending which all in turn may lead to greater economic growth. So is the 10% gain in six months real? Or perhaps a bit of emotional enthusiasm?

I would conclude via my crystal ball the answer to be YES. Yes, the "fundamentals" are good and they drive the market. Yes, the stock market is driven in the short-term by the perception or anticipation of future events.

There is a real possibility the stock market will continue to grow for some months to come based upon the market fundamentals. However, if tax reform and infra-structure spending do not materialize in a meaningful way, the emotional enthusiastic bump we have seen in recent months may flatten out to reflect the economic reality of the moment --- and we go back to fundamentals which are ok, to good, to seem to be improving.

Take away: Don't allow short-term success or frustration impact your financial goals. Your investments should be driven by your financial plan and **NOT** by the current news cycle, party in office, economic data or the phase of the moon. Economic growth comes and goes; recessions happen; political parties are in and then out of office; and geo-political terrorism seems to be a reality. I am convinced you cannot time the stock market. I am also convinced that globally the economic factors continue to improve so markets will grow.

The "Great Recession" of 2008 is the last example. No one knew how bad it was going to be nor when it would end. Yet, we survived and even managed to prosper.

The Recession of 2000 – 2002 is a distant memory. Most people have no recollection of the third event of the "Great Trifecta" that caused the market decline that began March 2000 and continued for thirty months (answer at the end of newsletter). We all remember the Dot.com bubble bursting in 2000….then the terrorist attack on the World Trade Center on 9-11-2001…but what was number three?

If you have questions or concerns regarding your financial plan, investments or asset allocation, call my office and we can talk further.

Coin Flips

Would you agree that for each individual time you flip a coin in the air that you have a 50 – 50 chance of getting either heads or tails?

If heads comes up ten times in a row, what are the chances of getting heads on the eleventh toss? Our "gambler's" brain says the odds of coming up tails is pretty good and is getting better after coming up heads ten times in a row. One side of the coin is heads, the other tails. And each time you flip the coin, the math says you have a 50% chance of heads and 50% chance of tails. Just because the coin came up heads on multiple flips does not increase the odds of tails the next time. Each toss stands alone. And the odds are 50 – 50.

So just because the stock market has gone up since March 9, 2009 does not mean it is "overdue" for a correction and the market decline is "imminent." The growth of the equity market has been good and will continue until it stops going up. And no one "knows" when that will occur.

The "Great Trifecta" market decline of 2000 through 2002: 1) Dot.com bubble bursting; 2) September 11, 2001 terrorist attach on World Trade Center, New York; 3) collapse of World.Com and Enron due to corporate lying, cheating and stealing….Most people have already forgotten about World.com & Enron.

Fred Wollman earned his Certified Financial Planner "CFP®" professional credential in 1984 and the Master Planner Advanced Studies "MPAS®" designation in 2015. He holds securities registrations 7, 63 and 24. He is registered in California, Arizona, South Dakota, Colorado, Minnesota, Texas, Virginia, Washington, Oregon, Florida, Tennessee and Pennsylvania in addition to holding a California life and disability insurance license. From 1987 through 1990 Fred taught the CFP classes to aspiring financial professionals at San Diego State University.

He is on the board of the Valley Center Trails Association, ECOLife Conservation, and the Hidden Valley Kiwanis Club.

Fred and his wife of thirty-six years, Kathy, live in Valley Center, CA with two cats, a dog and two horses.

Fred spends his down time relaxing with yoga, tai chi, riding horses and when he can get really away, backpacking the Anza Borrego Desert, Mt. San Jacinto or the California Sierra Nevada Mountains .

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