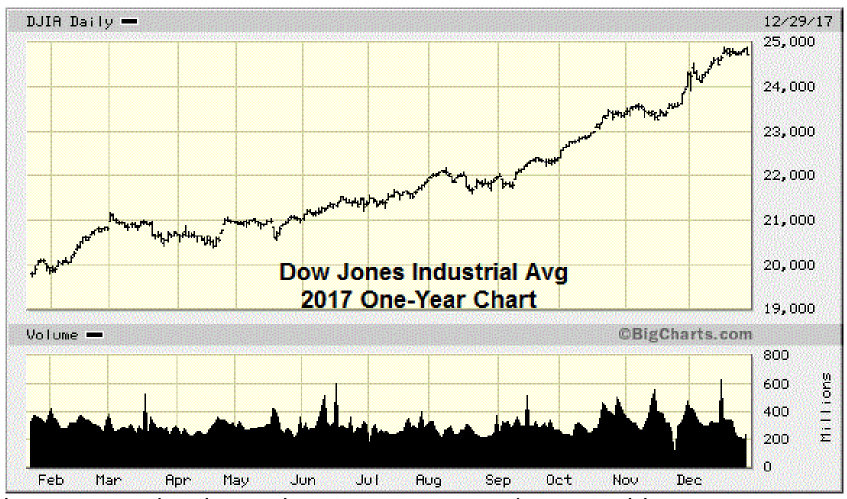
American Heritage Financial

January **Update** **January 2, 2018**

Comming of Age

One thing that can be said about 2017 is that it was ***a year that will be remembered!*** It included plenty of ***Good, Bad and Ugly***. There were, unfortunately, numerous tragic natural and man-made disasters along with some beyond-the-pale disgusting behavior mixed in with a good deal of positive progress (especially for investors!). In my opinion, the defining characteristic of 2017 is just how far we came from the murky beginnings of the year. While few agree on the reasons, 2017 saw our economy, financial markets, and, yes, even the political environment gain traction and, generally, ***mature*** in (mostly) positive ways.



A year ago, the economy was sputtering down the path of the long and inconsistent recovery that had been on-again-off-again since 2009 generating subnormal GDP growth (Gross Domestic Product). For instance, GDP grew by just 1.5% in 2016 but it appeared the economy was improving over the last half of the year. Then, the frustrating pattern reasserted itself when first quarter '17 growth slumped back to 1.4%. Since mid-year 2017, however, growth has strengthened and, more importantly, the economy has been showing positive and sustainable momentum and underlying strength. The last three quarters of 2017 appear to have grown at a +3% rate (fourth quarter numbers are still estimates). The Unemployment Rate is currently just above 4%, well below the Federal Reserve's 5.1% "full employment" definition. Manufactures are operating at near-capacity with utilization rates running in the high 70's while the ***ISM Manufacturing Index*** has been near 60 over the past four months, the strongest readings since 2008. These strengthening economic numbers have had the expected positive impact on housing and—real surprise—even retail sales.

Other than the fact that "momentum" has a major influence on future economic health, there are solid reasons to believe the strength of 2017 will continue. The first is the dramatic increase in **confidence**—both in and beyond corporate America. The ***Consumer Sentiment Index*** (as complied by the University of Michigan) had averaged a "solid" reading of just over 90 for most of 2015 and 2016. Beginning January 2017, however, that index rocketed to 98.1 and, with the exception of a dip to 93.1 in July, has remained in the very high 90's all 2017. Since consumer generate about two-thirds of all spending, this critical segment appears certain to continue to boost the economy. Business confidence shows even more dramatic optimism. The **NFIB Small Business Optimism Index** ran between 93 to 95 for the last half of 2015 and all of 2016—up until November. It surged after the election, rising to 106 in January 2017 and closed the year at 108, at 34 year high. *If there is truth to the often repeated claim that small business is the true driver and measure of the economy, it appears more happy days are to come.*

One additional extremely important reason U.S. economic growth should extend into 2018 is the **global economy.** As we have mentioned in previous ***Market Comments***, the major economies of the world came alive over the past 18 months. The world is currently enjoying a synchronized economic expansion that shows every indication of strengthening and extending even further. As the major player in global trade, the U.S. economy derives great benefit from the global growth.

The financial markets also matured in 2017. Remember, ***2017 started with very low expectations.*** According to *Barron's*, Wall Street strategists expected about a 5% gain for stocks in 2017. Investors' enthusiasm was as low as their expectations and they were more likely to describe themselves as "concerned" than "optimistic." Then, tedium broke out. Markets were notable in that volatility was extremely low even as stock prices marched slowly but relentlessly higher and interest rates stayed low and orderly. By mid-year 2017, markets were bordering on boring—stocks kept going higher but had generated little investor enthusiasm and lacked high anxiety concerns.

The last four to six months have changed all that. Through the first half of 2017 the Dow had achieved a solid 8% advance. Then, gains accelerated into the third quarter and the last quarter of 2017 generated a barn-burning 10.2% advance. For the year, the Dow climbed 25% and the S&P 500 gained 19%; a banner year, especially considering the low expectations.

One of the hallmarks of a *"mature*" bull market emerged in the final months: **Speculative manias**—the most remarkable being the rage in digital currency or cryptocurrencies, especially ***Bitcoin***. The speculative juices could also be seen in dramatic price movements within individual stocks and sectors such as semiconductors or biotech (although low volatility continued for the overall market). Individual investors became more willing to accept risk. A year ago, we often commented on how unenthusiastic and cautious individual investors were. The increase in enthusiasm can be seem in the ***AAII Investor Sentiment*** readings which show 52.6% of investors "bullish" and just 20.6% "bearish" as of December 27, 2017. That compares to historical averages of 38.5% bullish and 30.5% bearish. We have even seen it in our business as clients are more interested in past and potential gains where, previously, they were laser focused on preservation of principal.

The social and political environment in which we all live has also come a long way over this past year. Not everyone agrees on whether those changes have been positive or negative; but, in spite of one's personal preferences, it seems we have taken a few steps forward in terms of frank discussions and consideration of our problems and opinions. That personal view is purely anecdotal and excludes the main stream media where ever-escalating vitriol overwhelms most reports on current events. (Even an editorial by the ***New York Times***, on January 1, 2018, says people are confused by *"polarized politics and by a partisan press more focused on advancing its own interests than on informing the public."*) My optimistic opinion is that the media has become so extreme and unreliable that an increasing number of people simply block much of it out and form their own, independent and often more balanced interpretation. With a ***Twitter-in- Chief*** leading the way with blatantly biased and inaccurate statements which push media outlets to react in the extreme, the rest of us have responded by rejecting it all and thinking for ourselves to determine reality.

So how will all this increase in ***"maturity"*** from 2017 translate to the financial markets in 2018? With the caveat that the long, steady market gains since early 2016 could lead to a short-term "correction" at any time, investors' new-found enthusiasm appears justified. The stronger economy helped boost earnings over the last half of 2017 and sustainable economic and earnings growth in 2018 should justify further market gains. The new, reduced corporate tax rates along with repatriated overseas dollars will give an additional boost to earnings—although much of that stimulus may already be priced in. We are searching for new opportunities in previously overlooked areas of the market, including foreign stocks, materials or commodities and, perhaps even fixed income—as we expect to see higher interest rates and potentially an uptick in inflation.

We hope you share our optimism for the future and look forward to another rewarding year! Best Wishes for a Healthy, Happy and Prosperous 2018!

Best regards,

Ted Ingraham

EGI Financial, Inc.
American Heritage Securities, Inc.

Questions or comments?
Email us at: ahs@egifinancial.com or call 330-535-0881. Visit us at www.EGIFinancial.com