Abner Herrman & Brock
asset management

Investment Review and Outlook **January 2017**

"A New Awakening"

When Barack Obama took office in 2008 the US economy was still being impacted by the worst economic decline since the 1930's. The decline had been accentuated by excesses of increased financial leverage and a moderate regulatory environment. The President, Congress, and most government agencies moved quickly to cushion the economic decline with monetary policy while also adding new regulations to avoid a similar event from occurring in the future. The U.S. government implemented several economic stimulus programs to aid in rejuvenating the economy. Additionally, President Obama issued executive orders that increased regulations impacting business, state and local governments as well as consumers. During this period of change, Obamacare, the Clean Power Plan, the Volker Rule and Dodd-Frank were all new legislations that increased regulations in healthcare, oil drilling and coal extraction and financial services. Actions were also taken to improve citizens' rights in the form of new regulation in law enforcement, local housing development and government spending for education.

However well intended, these regulations have had a negative impact on economic growth in the US. Reacting to these changes, businesses merged together to be able to absorb the high cost of complying with the new regulations. Small neighborhood banks, unable to absorb the burdensome regulatory costs from Dodd Frank, were forced to merge with larger banks. Larger banks restructured their business by adhering to new requirements of increasing capital levels while exiting those areas of their business required by Dodd-Frank and the Volker Rule. While most large banks were able to absorb the costs of Dodd-Frank and the Volker Rule, many also merged. Companies moved portions of their operations offshore where the cost of doing business and government oversight was less. These actions resulted in slower growth for the US economy. With a slow rate of GDP growth, inflation remained low as did interest rates.

Recently, we have witnessed a rise both in interest rates as well as the US stock market. Many observers are both surprised as well as unsure of the reason for this recent rise. It appears the simple answer is in the expected change in direction of government policy. The Trump administration has indicated that it will take action to move the country to an economy that appears to be more business friendly. In a broad sense this will take the form of reducing and eliminating the regulations instituted by the Obama administration as well as reducing the size and cost of government. Trump has promised to "dismantle the Dodd-Frank Act and replace it with new policies to encourage economic growth and job creation". He has also indicated a desire for America to become a dominant provider of energy. In so doing, it is expected it will foster employment as well as increase faster economic growth in the US.

These changes will also have an impact on investors. Bond investors, who benefited from a rise in the value of their bond portfolios during the past eight years as interest rates declined, are likely to experience a decline in the price of their portfolio of bonds as bond prices decline reflecting higher interest rates. The Federal Reserve raised the Fed Funds Rate in December and many expect to see more increases in rates over the coming year.

Bond Mutual Funds and Index Bond Funds are likely to be impacted more severely. Separately managed bond portfolios such as those at AHB are likely to be less impacted by the change. AHB client bond portfolios own bonds with laddered maturities and thus are able to take advantage of the rise in interest rates as bonds mature. When bonds held in client portfolios mature and as interest income accrues, we will reinvest the proceeds in the higher current bond yields available in existing bond inventories. It appears that stock prices will continue to rise as investors gain more confidence in the economy and the prospect for growth in corporate profits. We believe it is likely that stock valuation measurements will also advance beyond the levels of the past several years. This will be helped by a greater degree of confidence in the improved rate of growth in the economy and the duration of its growth. Adding to the potential for higher stock valuations is the larger pool of investable assets available to be invested as a result of the increased size of pension and profit sharing plan assets. In general, there will be a continuation of the shift in investments to equities from bonds as their prospect appears more favorable.

As we have discussed in our more recent Investment Review and Outlooks, we had anticipated and positioned AHB client assets to take advantage of the rise in stock prices in equity portfolios and have structured bond portfolios with attention to durations that would limit the negative impact of higher interest rates. The investment objective for AHB client portfolios continues to be to provide reasonable risk-adjusted returns over the longer term for both stock and bond portfolios.

We wish you a very Happy and Healthy New Year.

Investment Policy Committee

Abner, Herrman & Brock Asset Management

Founded in 1981, Abner, Herrman & Brock Asset Management manages portfolios individually structured to assist each client in achieving their investment objectives. Stock portfolios are managed utilizing a Core Equity philosophy, investing in both large capitalization value and growth disciplines with an objective of long-term, after-tax appreciation and below market volatility. Portfolios are diversified across economic sectors, industries and companies. Bond portfolios are managed to provide a high rate of current income and total return. Portfolios are invested in staggered maturities of U.S. Treasury, government agency and investment-grade corporate bonds and where appropriate, investment-grade municipal bonds. Portfolio managers are available to meet with clients upon request. Please visit our website at www.ahbi.com for a more detailed description of our investment **Philosophy, Process and People.**