Abner Herrman & Brock
asset management

Investment Review and Outlook **October 2017**

"Goldilocks"

The current bull market, defined by a period that the stock market does not decline by at least 20%, began on March 9, 2009 and is in second place for longevity. The first place bull market which occurred from 1987-2001 was a similar rise that also followed a steep decline in the stock market. Today's bull market paused in 2015, with a slight decline for the year, then reasserted itself in late 2016 when investors considered the new administration's plans for a future with a less regulated business environment and an overall improving global economy.

After several years of a weak economic recovery, growth slowed to a post crisis low of 2.4% in 2016. The global economy is now expected to grow at 3.5% in 2017 while the U.S. economy is expected to only grow 2.3%. In spite of this modest overall growth, the U.S. unemployment rate is now 4.4%, which is below the average rate of 5.8% from 1948-2017. Nevertheless, consumer confidence continues to improve. The current rate of inflation is 1.9% also below the historic average. These economic measures continue to puzzle economists because typically a decrease in unemployment would be commensurate with both higher wages and higher levels of inflation. Historically, evidence of higher inflation was a basis for the Federal Reserve Board to raise interest rates. However, despite the current low rate of inflation, the Fed recently announced it will likely raise interest rates in December and suggested three rate increases next year. The improving economy, both domestically and globally also led to the Fed's decision to begin to reduce the debt on its balance sheet. The recent hurricanes may increase the inflation rate over the next few months as they rebuild. Overall, the economy is better and it is likely that technological innovation and globalization have disrupted industries and forcefully reduced costs which have provided for a period of economic strength without higher inflation.

Future earnings estimates for corporations provide several positive opportunities for growth. There has been a number of changes in the regulatory environment that reduced red tape, ultimately providing potential for more jobs and increased economic activity. Unrest in North Korea and across the Middle East have increased the proposed budget for defense spending. Any progress on infrastructure spending and/or changes in corporate tax law will provide an upside for economic activity and corporate earnings. The slowdown in retail and auto sales this year may rebound as a result of increased spending to repair the destruction from the hurricanes. These trends coupled with low interest rates and inflation allow for price earnings ratios on equities to remain stable with potential to expand.

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The question often asked is “Is the stock market too high?” There are fundamental reasons for the current relatively high equity valuations, including the prolonged low interest rate environment. Low interest rates support high equity valuations. Equity investment returns become more attractive relative to low bond yields. AHB does not attempt to time the market. Our investment committee monitors economic trends to identify investment opportunities in specific stock and bond investments using our proprietary research.

The recent weekly outflows from U.S. equity funds may be an indication of investors’ valuation concerns. Often, the underlying concern of investors is their individual equity allocation. Since the financial crisis, equities have outperformed bonds. Therefore, an investment allocation of 60% in stocks and 40% in bonds in 2009, if not reallocated, would now have more than 75% in stocks. A reallocation to bonds would return the portfolio to its original asset allocation. Asset allocation coupled with individual security selection are the key ingredients for a portfolio to successfully meet an owner's investment objectives. Another reason for the shift out of equities to bonds is the aging population, requiring a shift in priorities from investment return to preservation of capital.

Investors allocate a portion of their investments to equities to grow their assets at a rate above that available in bonds. Although broad based economic growth may be modest, there are many sectors and industries which provide the potential for above average investor returns. Because of increased innovation, increased investment spending and decreased regulations, we have identified attractive equity investment opportunities for our clients.

Bond investments are appropriate for those with investment objectives that desire income and preservation of capital. AHB client bond portfolios are actively laddered with bonds selected with the most optimal yield for a given level of creditworthiness. Additionally, client bond portfolios are positioned to take advantage of most opportune portion of the yield curve while providing the portfolio a chance to reinvest maturities should yields increase.

May the fourth quarter of this year provide a peaceful holiday season for you and your family.

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.**