Abner Herrman & Brock
asset management

Investment Review and Outlook **July 2017**

"When Fools Rush In"

The key indicators that measure economic activity in the United States continue to suggest an economy growing at a moderate rate. Gross Domestic Product (GDP) is increasing year to date at a rate of approximately 2% with inflation increasing at an average rate of 1.6% over the past two years. Productivity is also below expectations increasing 1% or less as is the growth of manufacturing productivity increasing 0.5% year to date. The unemployment rate has declined from above 10% in 2009 to 4.3% today and the US dollar has strengthened from under 1.50 dollars to the Euro in 2009 to 1.15 today. Economists are perplexed by the tempered response of the economy to the stimulus efforts of the Federal Reserve and the U.S. government, both of which were expected to increase the rate of growth of the U.S. economy more substantially.

When we look beneath the macroeconomic statistics, it is apparent that while some economic sectors have had slow earnings growth or even lower profits year over year, there are others that have prospered. On a positive note, many technology companies are growing at above average earnings growth rates as a result of the technological innovation primarily provided by the Internet. For example, payment companies such as MasterCard and PayPal are increasing their earnings significantly because they are benefiting from the increased adoption by consumers of electronic payments. In the leisure industry, hotels and cruise lines' earnings are growing rapidly because of increases in spending on travel. Contrarily, there has been disruption in the economy that has negatively impacted particular sectors and industries which may be the reason for the overall slower GDP growth rate. An increase in online shopping has had a negative impact on retail sales of brick and mortar stores. The energy sector has been negatively impacted by the decline in the price of a barrel of oil falling from $125 per barrel in 2015 to the current level of $40-$50 per barrel. Lower interest rates have kept profitability of financial service companies at more modest levels. Finally, defense companies have had slower sales in recent years due to a reduction in the defense budget. By recognizing these counterbalancing forces, we have a deep understanding of the economy. AHB uses this fundamental analysis to make investment decisions with careful selection of sectors and industries instead of exclusively focusing on the macroeconomic statistics.

At the same time that the broad measures of economic growth for the U.S. economy appear to be modest, the Dow Jones Industrial Average (DJIA) and the Standard & Poor's Index (S&P 500 Index) are registering new highs. Investors have become concerned about the high valuations of these market indices given the modest economic outlook for the U.S economy. AHB has also taken note of this dichotomy and believes one explanation may be the shift of investments from individual stocks towards Exchange Traded Funds (ETF's) and Index Funds. As investors have become disenchanted with the ability of performance-based investment managers to "beat a market index," many investors have moved their money to a market index fund. Today, over $3 trillion in investor assets are invested in ETF's. Two of the largest index ETF's are the S&P 500 Index and the Dow Jones Industrial Average. The companies in each index are not chosen based on the investment outlook of each company but rather every stock is included in the particular index. Upon becoming a member of the respective index, each company is weighted in the index according to their market value rather than each company having an equal weight in the index. In the S&P 500 Index, 52 of the 500 companies account for 50% of the value of the index. Many of these companies are trading at price-earnings ratios well above the expectations of their earnings growth thus making the S&P 500 Index Fund as a whole look as if it is trading at a historically high valuation. Since an investor in an index fund must own all the companies in the index, those investors must have exposure to all the undervalued and unfortunately the overvalued companies. Because AHB invests in individual securities for its clients and not in index funds, we are able to discern those sectors, industries and companies with the best long term future growth prospects. Our investment strategy maintains buying individual stocks of companies with strong earnings growth potential and avoiding those stocks of companies with exposure to weaker areas of the economy. We remain cognizant of valuations to provide clients with risk-adjusted investment portfolios in comparison to an index which includes all economic sectors and all valuations.

With regard to bond portfolio investment management, we continue to forecast modest increases in inflation in the short and intermediate term. Therefore, we expect interest rates to increase modestly and slowly and have, positioned client portfolios with an active ladder of investment grade corporate bonds or municipal bonds reflecting our forecast for inflation and interest rates.

In closing, please know we too are aware of the various uncertainties that confront both the United States and the world at large. It is for these reasons and many others that we believe an investment strategy providing a balance of both an opportunity for growth as well as safety of principal and low volatility is ideal.

We thank you for your steadfast confidence in our investment services and wish you an enjoyable, safe and healthy summer.

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.**