Investment Review and Outlook **January 2020**

Less is More

The past 3 years have witnessed a resurgence in the US economy as well as a continued increase in the US Stock Market. The major theme of the advance has been fostered by a movement to less regulation by government which has enabled companies to increase earnings. Less regulation and lower taxes, however, are not without cost. The costs have been identified as a ballooning US government debt as well as potential negative impacts on the environment. As with most changes there are arguments supporting both sides.

From an economic and investment vantage point, it appears evident that the economy as well as the equity and bond markets have benefited from lower taxes, lower inflation, and fewer government regulations. As we have discussed in the past, we believe technological innovation has had a significant impact on both lowering inflation and increasing corporate profits. Lower levels of inflation help to lower interest rates which has increased bond prices. These positive economic forces have improved consumer confidence as well as lowered unemployment to record levels. Other changes that have a positive impact on inflation have been the reduced price of oil. Lower energy prices lowers costs for both corporations and individuals.

Of course, there are uncertainties which have held back economic growth during the past two years. A major uncertainty is the outcome of the several trade negotiations, particularly with China. Another major uncertainty is the outcome of the US election in 2020. As with most changes we will not fully be aware of the impact for some time. However, there have been other changes that appear to have had an impact on the equity markets. As interest rates have declined, the relative value of equity investments have become more attractive. Stock prices have also been positively impacted by the fewer number of large capitalization companies stocks available for investors to buy.

Not only are there fewer companies to buy, but companies have fewer shares outstanding as a result of companies buying back their own shares. Compounding the reductions in the number of available companies to buy and fewer shares outstanding, there has been an increase in the amount of money to invest in publicly traded companies. At the same time, funds have moved from hedge funds to private equity, causing companies to stay private for longer, thus further reducing the supply of publicly investable companies.

We believe valuations placed on large capitalization companies may rise above their past historic price earnings levels. Other factors impacting equity share valuation have been a reduction in the number of attractive economic sectors and industries in which to invest. Energy companies have been negatively impacted by the lower price of oil. Brick and mortar retailers have been negatively impacted by online purchasing. Financial sector companies are being negatively impacted by lower interest rates creating lower net interest operating margins. Pharmaceutical companies are impacted by government's efforts to reduce drug prices.

Offsetting these negatives have been more companies benefitting from the move to a cashless society. Defense companies are also seeing benefits resulting from the global unrest. Hospital supply companies are benefiting from the aging population as are health insurance companies.

In sum, we are living in a dynamic and fast changing global society and economy. Therefore, AHB continues to invest with a focus on placing client interest FIRST. We diversify Client portfolios with a broad number of stocks and bonds of large capitalization investment grade companies. AHB clients are focused on achieving their specific investment objective and at the same time controlling risk and volatility. AHB investment Philosophy, Process and Portfolio Management places the client investment objectives first which includes providing attractive relative risk adjusted investment returns.

Thank you for being a valued client. We continue to work for you as we have since 1981.

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.**

Harborside 5 ▪ 185 Hudson Street, Suite 1640 ▪ Jersey City NJ 07311 ▪ Phone 1-201-484-2000 ▪ Fax 1-201-435-4603 ▪ Email info@ahbi.com ▪ www.ahbi.com