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Market Review & Update

SPRING 2018

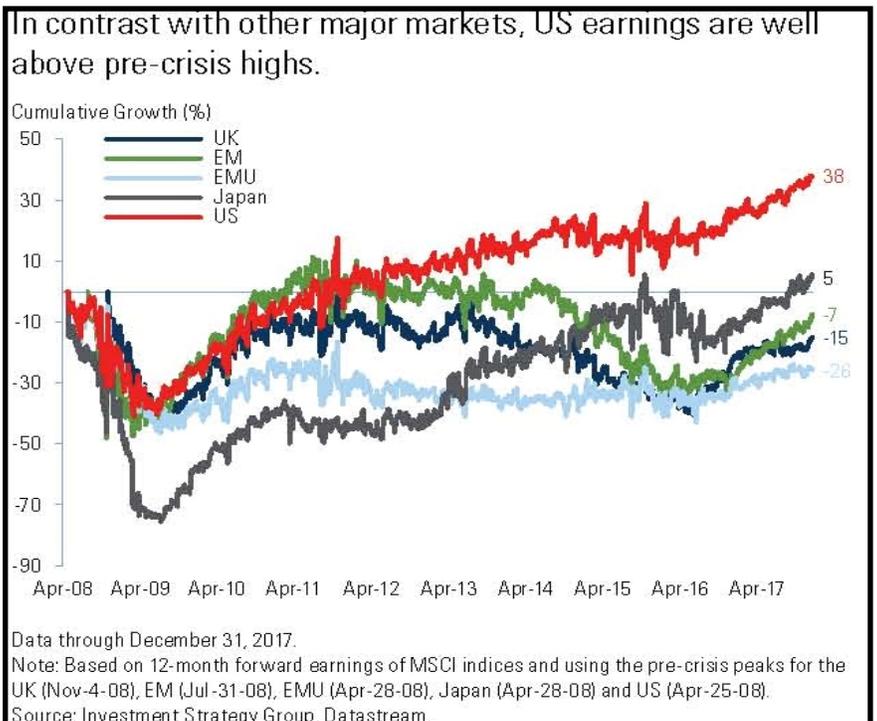
Snow notwithstanding, it's sorta Spring... March clearly, for both the weather and the markets, has that "in like a lion, out like a lamb" thing going on. Well ok, perhaps a really peevish lamb.

January ended with a 10 month win streak that had not been seen since 1959. February then brought with it volatility some would say was long, long overdue. Lets take a moment for a brief test. The media had a choice, they could refer to it as "the 99th biggest percentage decline", or characterize it as "the largest point drop in history". My guess is that by now you probably know their choice, when in doubt maximize hyperbole!

Earnings were the primary driver for that 10 month advance, with the final months getting an extra shove by the passage of the corporate tax reduction package. Then, concerns of potential unknowns, primarily the potential for accelerating inflation and interest rates as well as Powell's first chat with congress as the new Fed head.

Let's focus on earnings for a moment, the tax package and the resulting impact on the economy. Goldman sees full year earnings up between 15-18% with about a third of that coming from corporate tax revisions. They also forecast a 7-9% hike for 2019. Companies responded by raising wages, tossing around bonuses, increasing buyback and dividend plans. And yes, some will invest in growth and new employees. Economic growth, as measured by GDP sits somewhat comfortably in the 3's, and no persistent changes in inflation have yet to show themselves, extending the Fed's ability to play the patience card. The recent release of the February jobs numbers came in at 313,000, crushing the anticipated 200k. Please especially note that the unemployment rate did not change from 4.1%. That importantly means that more folks entered the work force, raising the historically low participation rate.

Earnings Growth Since Pre-Crisis Peak

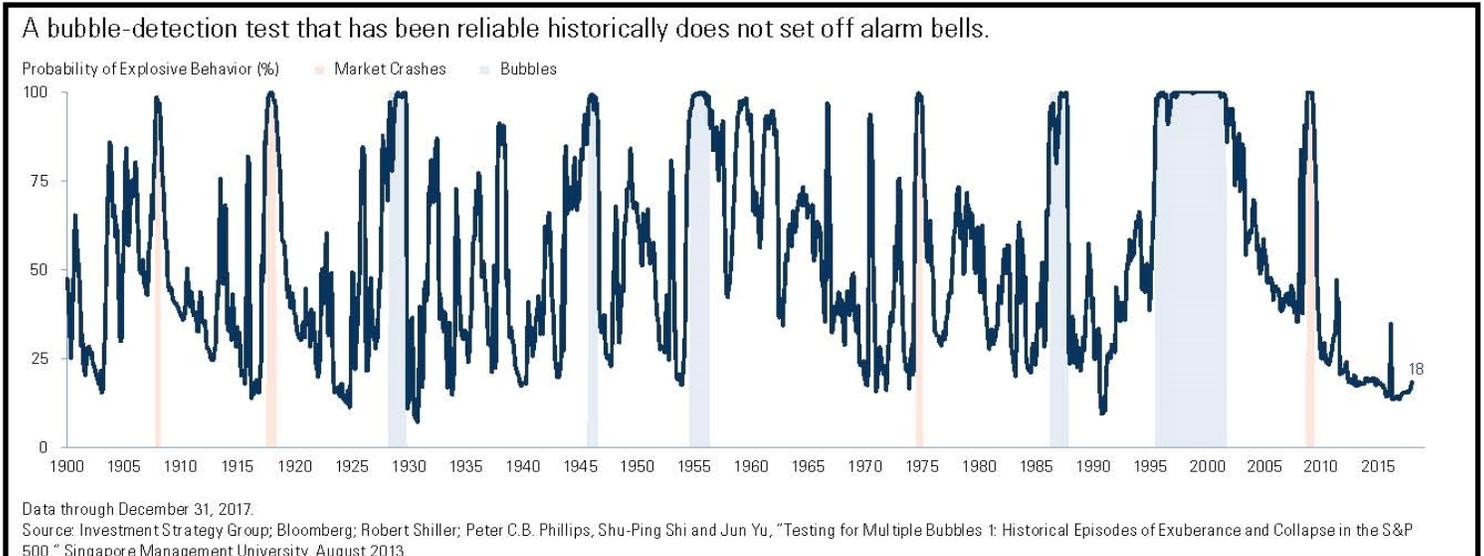


This key facet could help quell some of the fear of an inflation surprise. Coincidental wage increases were quite muted. As we go forward we will also want to watch productivity trends as any enhancements thereto can be netted off the inflation rate.

Nobody really wants to, but lets peek at Washington for a moment. Cohn is out as chief economic advisor, but Kudlow is in as his replacement and is a far more media friendly and well known face to America. Tariff talk went off like a blunderbuss. We will want to see that this is a manifestation of negotiating tactics and not the “new normal”. We have seen hints of this as Canada and Mexico have already received a reprieve. Interestingly, Kudlow is widely known to not be a tariff fan.

We can only regard the reported metrics in the rear-view mirror as goldilocks-ish, quite good. The hyperbole out the front window is guessing as to the path of potential perturbations that could upset the data placidity. We are, in many ways, in uncharted territory. In mid 2019 this will become the longest recovery in history. And, no human has ever witnessed a large stimulus package (corp tax relief) enhance aggregate demand so deep into a cycle. Inasmuch, anyone claiming to know the trajectory is proffering fake news...

S&P Bubble Indicator



What we do know is that the reported metrics are above average both here and abroad. And, we also know that momentums continue till acted upon by outside forces. For now, that’s a good scenario. The next several earnings periods should provide some comforting confirmation to a recovery that so far has generated more than a 300% rise in the Standard & Poors Index.

Hey, it is Spring after all and as noted past presidential advisor Chance Gardener has counselled “as long as the roots are not severed, all is well. And all will be well in the garden. Growth has it seasons. There will be growth in the Spring”...

We’ll talk to you soon...