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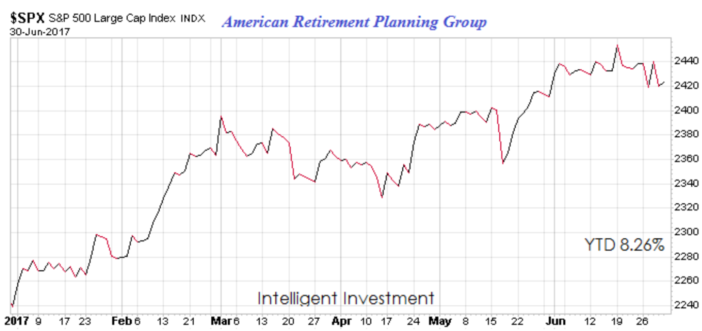
INTELLIGENT INVESTMENT

Second Quarter Newsletter, 2017

S&P 500 YTD +8.26%



Dow Jones YTD +8.03%

“This Is the Beginning of the End…” or is it?

“I can see it in your eyes, in everything you do, And you're afraid to tell me that we're through”[1]

Old blue eyes sure knew how to tell a great story with a song…

We however, are not so talented. But in our ongoing, in depth studies of markets, economies, interest rates, etc.… we do find wisdom in the words of the Chairman. Wait a minute Frank! Corporate earnings are strong, consumer spending is robust, employment is at peak levels and the markets are pricing in continued economic growth… The market seems quite certain all is well, I’m not so convinced Frank is right on this one… Well, several market indicators are flashing warning signs, causing a bit of concern. Although Mr. Sinatra’s silky smooth foresight may prove correct, I would be shocked if the greatest crooner that ever lived opined on the vacillations of our markets and choose to write a love ballad about its fickle ways.

Let's take a look at why the market is so convinced there's no end to the party anytime soon.

Corporate earnings are quite strong. According to Factset, the S&P 500 earnings growth for the first quarter of 2017 grew 13.9% over the first quarter of 2016, along with estimated earnings growth of 6.5% for the second quarter.[2] Consumer spending remains the juggernaut of our economy. According to Marketwatch, "Americans boosted spending by 0.4% in April the fastest clip since the end of 2016 in another sign the economy has sped up during the spring. Lower inflation that reflects falling oil prices also gave households an extra cushion."[3] To say US employment is robust would be an understatement. In an article from the New York Times "The economy added 211,000 jobs in April, and the unemployment rate fell to 4.4 percent. That is not just the lowest jobless rate in a decade; it also matches the lowest level reached during the mid-2000s expansion. The last time it was lower was May 2001, 16 full years ago."[4] Moreover, the S&P 500 is telling us it believes there to be continued economic expansion trading at a 26.4% more expensive multiple than its 10 year average.

Ok Frank, what do you have to say about that? Still think we're coming to the end? Well… The funny thing about the markets is that when all indicators are pointing up, and it appears there is no possibility of a correction or economic hiccup is when we get a correction nobody saw coming or an economic set back which could stem from any number of things. "One sell-side indicator of stocks is based on a survey of Wall Street strategists' asset allocation recommendations on the last day of every month, as of June 30, the indicator is at its highest level since 2011. The recent inflection from skepticism to optimism could be the first step toward the market euphoria that we typically see at the END of bull markets and that has been glaringly absent so far in the cycle, said Savita Subramanian, the head of equity and quant strategy at BAML. We have found that Wall Street's consensus equity allocation has been a reliable contrary indicator, Subramanian added. In other words, it has historically been a bullish signal when Wall Street was extremely bearish, and vice versa. Moreover, Fundstrat's Tom Lee, whose year-end S&P 500 target of 2,275, a (-6.10%) correction from current levels, is the lowest among major strategists, said earnings would need to pick up at a faster pace to match various gauges of valuation that are stretched, such as the median price-to-earnings ratio."[5]

What can we gather by comparing the extremely positive economic data that seems to be permeating every aspect of the markets against the paradoxical nature of that same positive data reaching such peak levels creating in and of itself a very significant negative, or at best, cautionary indicator for the markets? On the surface it wouldn't be a stretch to conclude the markets are just that… stretched… Stretched, hoping there will be no end anytime soon to the economic /market expansion we have all become accustomed to and enjoyed for over 8 years. With the S&P 500 gaining a mere 1% from March 1 to June 30, I would say the momentum the market has provided us could very well become a distant memory.

I think I will defer to the Sultan of Swoon, "I can see the thrill is gone, why let it linger on… That this, this is the beginning of the end"[1] …or is it? What we are very certain of is the long, hot days of summer are here, make Frank proud and grab a lemonade with good friend and enjoy the season. Fall will be upon us soon enough and it will be time to trade the lawn mower for a leaf blower. ARPG will continue to steadfastly monitor our twenty indicators and provide our tactical asset allocation methodology to help protect your assets and better capture future gains. This is what sets American Retirement Planning Group apart from the rest. As always, we thank you for your confidence and are humbled by your trust. Please feel free to contact us at any time.

INTELLIGENT INVESTMENT

Sincerely,

Dwight A. Machael
President
American Retirement Planning Group

Sincerely,

Matthew Dahl
Vice-President
American Retirement Planning Group

1.Mack Gordon/Frank Sinatra 1940
2.Factset
3.Marketwatch
4.NY Times
5.Business Insider