Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – FEBRUARY 1, 2017

I come from a state that raises corn and cotton
And cockleburs and Democrats, and frothy eloquence
Neither convinces nor satisfies me. I am from Missouri.
You have got to show me. ~ Congressman Vandiver, 1899

Mention the "Show-Me" state on a license plate or in a news article today and everyone will know it is a reference to Missouri. Whether or not it was Congressman Vandiver who actually coined the phrase in his speech at a Philadelphia naval banquet all those years ago is open to question. What is certain, however, is that the term has come to describe the stalwart, conservative, and incredulous character of Missourians. Likewise, the neighboring picture does the same for all Midwesterners.

Since the beginning of 2017, market participants have been content to keep prices in a modestly positive trading band as they settle into "show-me" mode. The narrow enthusiasm that greeted the president-elect has dwindled. Investors now want facts and evidence to support their earlier pricing decisions. And they are waiting to see what, if any, change the new president and his policies will bring. In a sense, and as it should be with every elected official, we've all become Missourians.

And it is not just the president's forthcoming policies on regulation, trade policy, and taxes that are getting a little added scrutiny. The fourth quarter results of companies themselves, the ultimate arbiters of market action, are being teased and combed as we type this commentary.

For much of the last year, earnings per share numbers were held aloft by a consistent reduction in the number of shares outstanding (Think of your favorite apple pie simply cut into fewer pieces. The overall pie is the same size, but your piece is bigger.). That perfectly legitimate trend is likely to continue. But the better news is that for the foreseeable future revenues and earnings are forecast to increase in their own right.

Therefore, we potentially have at least five favorable tailwinds for publicly traded stock prices. 1. Decreased number of shares. 2. Real earnings growth. 3. Growth oriented fiscal policy. 4. Modest interest rates. 5. Talking the dollar lower.

Some readers may think such a situation may cause us to put up as much canvas to the wind as possible in hopes to gather the favorable breeze and propel their portfolios to greater speeds and higher heights.

The short answer is that we are. Where appropriate, client portfolios are at, or slightly over, the strategic targets for risk assets (i.e. stocks).

But as thoughtful readers know, we are likely facing a fair number of headwinds in the coming year. 1. Administration jaw-boning may not weaken the dollar enough. A strong dollar still has the potential to harm foreign profits of American investors and companies. 2. Washington D.C. politics can and do change on a dime. Any pro-growth policies may quickly be eclipsed by the hub-bub of the month. 3. The Fed may act more aggressively than we anticipate, mitigating much of the beneficial tailwinds.

For these reasons we remain committed to making only tactical adjustments around clients' long term allocation decisions. We believe the small chance for greater returns is more than wiped out by the greater chance for poor returns when investors engage in significant market timing.

Quick earnings scorecard: Of the S&P 500 companies that have reported 4Q results, over 2/3 have beaten expectations. This is a good number, but at the same time, fairly typical. Year-over-year revenues have grown over 5%. Operating margins have again gained steam and are hovering just under 10%. From an income statement perspective, companies are fundamentally strong. Balance sheets have taken on more debt over the last few years. Companies should have ample time to begin to pay these sums down should they choose. And if they choose to ignore these potential added burdens – well we know what happens when firms, families, and nations take on too much debt…

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent our way.

Sincerely

Jason Born, CFA
President