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2017 – Second Half Outlook

Now the first half is over, and a nice one it was (9% or so), we begin on our focus now for the rest of the year. Since we were predicting 8-10% annual return earlier this year, it appears we should be safe on that bet. As the market always tends to look 6 months in advance, the market will now begin looking at 2018 (believe it or not)! As I always say, it all depends on earnings. Our current P/E of 18.5 is historically very high (15.6 is the average), but it is approximately the same as it was a year ago (17.9). But we got a nice surprise with a 15% jump in earnings for the first half. So, the 9% increases was "justified". Plus, we expect earnings to grow by 11% in the second half.

Logically, a 12-15% year return for 2017 seems reasonable. But were talking about the U.S. Stock Market – where reason and logic can often be foreign words!

So, let's make a quick list of the good and bad things that could affect the market in the second half. First, the GOOD:

- Positive corporate earnings (see above).
- GDP growth of 2.1 to 2.5% in second half. Even better potential in 2018.
- Capital spending up 2.1%.
- Global Recovery (especially Europe)
- Lower energy costs (yes Houston, some folks do like lower oil prices)
- Lack of excesses (so far).
- Potential tax cuts (this could be a big boost).

And then the BAD:

- Interest rates rising (but most expectations are already in the market).
- International unrest. Syria, North Korea, etc.
- Potential wage inflation. With unemployment of 4.3%, this will eventually happen.
- Political unrest.
- Lower energy earnings.

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Please note – we do expect a correction. 5% is almost a given. If we run up too fast from these levels, we could see a 6-8%, blow off (i.e., buying opportunity)! Over the past 50 years, the "average" high to low correction is around 14%!! And ladies and gentlemen, that's why equities have such a good "long-term" returns… because of the risk! If there was no risk, predictable returns, a "socialized" marketplace, there would be no return for risk and no growth. I don't want to sound like Gordan Gecko here, but with a well-diversified asset allocation, plus a prudent and manageable plan, solid and manageable long-term returns can be a real possibility. 'Nuff said.

If you would like to discuss the market and/or your account(s), please call me at 713.428.2050, x2 or via email to josborn@houcap.com.

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