



## KEEP MOVING FORWARD: 2017 ANNUAL OUTLOOK

Happy New Year and welcome to the first edition of **VZD Capital Management's** quarterly newsletter. In many ways, 2016 was a year of the unexpected. It was a time when unprecedented events occurred like the U. S. election, U. K. Brexit vote and the Fed's second U-turn on interest rates that took many people by surprise. Yet, the uncertainties about volatility proved unfounded and the market managed to end the year on a positive note. Some asset classes posted solid gains, defying the odds, showing that opportunities can arise despite many setbacks.

Markets reacted to the election of Donald Trump with a quick repricing of many assets. Undervalued sectors, like financials, energy, health care and aircraft/defense outperformed on the expectation of future regulatory relief, business friendly policies, personal and corporate tax cuts and the unraveling of the Affordable Care Act. When President Trump began to assemble his cabinet, it became more apparent that it wasn't politics as usual. Should President Trump manage to avoid the many pitfalls facing a new president, especially given his eccentric ideologies, non-traditional background and vague remedies, then these uncertain times could transition into the best of times. No one has a crystal ball to predict the outcome of the next four years.

However, as I referenced in my post-election newsletter, a pro-growth U.S. economy based on infrastructure investments, decreased taxation for individuals and corporations, relaxed regulations, and more energy options appears to be a recipe for holistic, organic growth for investors. It is estimated that approximately \$70 trillion in cash is sitting on the sidelines.

One thing is for certain, in a low or negative interest rate environment, the opportunity cost of holding cash is detrimental to long-term growth potential.

Trump has proposed a massive fiscal stimulus program that includes a \$1 trillion investment in infrastructure spending that should boost inflationary expectations. Therefore, it is conceivable that some of the cash on the sidelines may be forced to jump into the market for higher return and induce inflationary growth that will benefit many asset classes. With that said, expectations are high for the 2017 U.S. economy. The rotation in the stock market could cause surging optimism amongst businesses and consumers, unlocking the current stagnation and building solid momentum for domestic and emerging market investments.

**VZD Capital** believes the increasing market confidence coming forth from the new administration's tax cut plans, relaxed regulations, aggressive spending plans and the attempt to "Make America Great Again" could lead to new jobs, greater productivity levels and faster gross domestic product growth – but it won't happen overnight. Even so, 2017 could bring a stronger performance than what was seen last year. The "feel good" aspect of this story will come from staying the course, keeping a long-term perspective (which is longer than one year), and taking advantage of opportunities as they present themselves. After all, the S&P 500 ended 2016 with a 9.5 percent return but the journey to profitability didn't come easy or without challenges. Remember, a setback can be a setup for greater things to come.

Here's wishing you and yours a very happy new year, and thank you for your continued support. I appreciate the opportunity to serve your investment needs and the regular referrals of your friends, family members and business associates. If you should have any questions regarding your portfolio or would like a complimentary review for qualified retirement assets, or other investments, please don't hesitate to ask.

With Gratitude,

Ethel J. Davis & Associates  
CEO | PORTFOLIO MANAGER