



INVESTMENT OUTLOOK: ROCK STEADY

Domestic equities continued their post-U.S. presidential election rally, notching a single-digit advance in the second quarter of 2017. Investors' expectations for corporate tax cuts, infrastructure spending and regulatory reform continued to spark the daily feeds. But investors hit the pause button as they began to question the ability of President Trump and the Republican Party to implement their policy agendas in light of an unsuccessful attempt to repeal the Affordable Care Act.

The S&P 500 finished June within a few points of where it started and concluded the quarter up 2.6 percent. June brought significant rotation across sectors with technology stocks falling by almost 5 percent and financial stocks delivering 10 percent increases overall. These gains boost S&P 500 performance to 11.5 percent for the year. The institutional trend this quarter was to sell growth stocks that exhibited price momentum and purchase value stocks based on cyclical recovery fueled by the market's changing expectations, corporate earnings and interest rate considerations.

Given the historic highs of the markets, the inexperienced and controversial new President, continuing partisan political turmoil, contentious elections in Europe, and global religious and political terrorism, many investors have left the markets and headed for conservative liquid positions. Party-rule politics have never been a safe road to a well-functioning economy, yet oddly enough, domestic capital markets have suffered little impact.

I am confident that investors who bailed out of the market were just feeling queasy after witnessing the third longest economic expansion since 1850 and the second longest bull market in capital markets history, all despite the political

turmoil. Only four of the 30 major indices have not had positive returns since the beginning of the year. Improving economies, central bank support, rising euro zones, positive consumer sentiment, strong earnings growth, and a vigorous technology industry in the U.S. and China have all contributed to robust capital markets performance. This high level of market performance, despite the high degree of political turmoil, is a new phenomenon, and it is a common psychological phenomenon to fear the unknown.

Even though the stock indices are at historic highs, there is a hair-trigger anxiety in the market. For the foreseeable future, the major American economic risk is political. Russian meddling may not have affected the actual voter count but it did alter the political climate that enabled the Trump victory.

Looking ahead to the second half of 2017, the direction of the markets will likely depend on whether we focus on politics in the news or we shift that focus to economic and company fundamentals. In the last quarter, many of the “fake” media outlets turned almost uniformly negative, spreading the word that the bull market in stocks is over, so much that you would think a recession is right around the corner. For the most part, the media have brainwashed investors to live in fear and not believe the numbers on their statements that contradict the most absurd editorials. Knowledge, perspective and experience are the forces that shape our understanding most of the time. As Warren Buffett has said many times, “there are few things in investing, but stock prices rising over time relative to cash is one of them.” Currently, there is very little data to support a negative outlook for the markets. Interest rates remain low, global economies continue to expand and earnings growth remains healthy. Those are the conditions that have supported the bull market for much of its run.

We hope this summer affords you the opportunity to spend time with family and friends. **VZD Capital Management, LLC** is proud to announce that Ethel J. Davis is nominated as one of Leawood’s best wealth managers. Leawood Lifestyle magazine asks you to cast your vote for your favorite local businesses and services (like me) – it only takes a moment to vote. Thank you – vote here: www.RCLEawood.com.

We are most thankful and honored by your trust and confidence.

Best Regards,

Ethel J. Davis
CEO | Portfolio Manager