

It's a Wonderful World

The U.S. Markets and International Markets moving up in value in unison can only be described by the title of the 1939 Jimmy Stewart movie "It's a Wonderful World." Despite the negatives and market nigh Sayers out there the Dow and the S&P exchanges have continued to move up and make new highs.

The old saying "a rising tide lifts all ships" is certainly true of returns in 2017. Growth companies led returns, but based on simple reversion to the mean, we believe value companies that pay higher dividends and have low price-book ratios will benefit in 2018 and are still undervalued. We believe that continued economic growth in developed markets, such as the U.S. and Europe, can help propel growth in other developed market countries, as well as certain emerging markets. In addition, despite their out-performance in 2017, international developed, emerging and frontier markets are still more attractively valued when compared to U.S. equities.

The repatriation of money from the passing of the new tax act should increase mergers and acquisitions. The technology and biotechnology areas are attractive for growth and could be good takeover targets. Lower taxes should increase corporate earnings and lower P/E ratios and should be especially impactful for smaller companies. Now that the tax bill is done a focus on infrastructure spending could be the next area to see growth based on the current administration's agenda.

Moving forward into 2018, disruptive technology will change many things in business and for consumers. The impact of the second generation of genomic research has generated an economic impact of over a billion dollars and has created over a million new jobs. The same research will help to target disease and treatment, as well as impact agriculture, environmental applications, forensic applications and expand basic scientific knowledge. Biometric wearables will provide new pathways to better health. At one time many postulated that a 50-qubit quantum computing system would be unattainable in our lifetime. Commercial accesses to quantum computers are available beginning January of this year! Last month IBM introduced the first 50-qubit universal gate system. Full security encryption/decryption and drug disease discovery is very likely to be made in 2018. Initially expected in 2020, 5G technology will be commercially available in 2019. This technology will allow handheld devices to handle processing faster, autonomous vehicles, virtual and augmented reality and the Internet of Things.

Bitcoin was the buzzword in 2017, but the technology behind it, blockchain, may have more uses in transferring secure information in banking, healthcare and other service industries.

We are positioning our portfolios to take advantage of the changes mentioned. We wish you a very happy and prosperous New Year!

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