Quarterly Review

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My guess is you expect me to opine on the recent elections. Sorry to disappoint but this topic is taking far too much oxygen out of the room and not until actual decisions are made (laws passed, executive actions written, etc.) will we know, with any degree of certainty, the path that our country is on. At this point, it's simply "wait and see."

Structurally, however, I believe that the economy is on sound footings as many of the impediments to growth that have persisted for several years appear to have been solved. These include:

Energy
The U.S. is on the verge of energy independence with renewables accounting for 12% of energy production and rising. In fact, the world may be approaching a new peak oil issue as we face peak oil demand vs. peak oil supply. The economic implications of energy independence to the country are massive.

Manufacturing
The cost differential between Made in America and Made in China is diminishing. It is projected that the difference in cost today is roughly 5%. As costs converge, more manufacturers will shift to domestic production. Unfortunately, jobs are not expected to follow as companies will continue to add robotics, computers, and 3-D manufacturing capabilities, eliminating the need for workers.

Housing Stock
The excess inventory of housing in this country has been absorbed. In fact, the country has underbuilt residential real estate since 2008, by many estimates. This is evident in the inventory of housing, which is in short supply at the lower end of the price spectrum. As Millennials continue to create households (move out, marry, have children) more housing will be required to satisfy demand.

Recapitalized Banking Sector
Leverage in the banking sector has been reduced dramatically. According to some estimates, leverage has moved from 40:1 down to 9:1. With bank balance sheets in a solid position and rising interest rates, banks increasingly have both the capacity and the incentive to lend.

Consumer Health
The U.S. economy is approximately 70% consumer driven. If consumers are in good economic health and are in a good mood, spending usually follows. The American consumer has "cleaned up" their balance sheet, is saving at an annual pace of 5.7% and may be in a better mood to spend as wages rise, unemployment lowers, jobs become more plentiful, and their houses and 401(k) accounts appreciate.

Since the Great Recession, the footings have been laid to create a vibrant U.S. economy. This bodes well for the long-term economic health of our country. As corporate earnings (and stock prices) generally follow economic growth, we can anticipate an appreciating long-term stock market. Shorter-term, we should expect continued market volatility as investors digest developments as they occur.

As always we thank you for your business and for your continued trust.

Sincerely,

Jack P. Cannata

Past performance is no guarantee of future results. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses.

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