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Stolper Asset Management
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Portfolio Comments
For the Quarter Ending September 30, 2017

You heard it here first. Or maybe you didn't, since the press coverage has been quite widespread, but The Dow Jones Industrial Average – or 'The Dow' – is predicted to go over one million! Of course this is just a forecast, accompanied by all the usual caveats and disclaimers (to be clear, nothing is promised), and the accompanying timeline of 100 years is frustratingly far off, but the source of the prediction is reputable and the number is not far-fetched. Mr. Warren Buffett, the 87-year-old modern-day sage of value investing made the forecast at a dinner this month and, to put the lofty number into context, the blue-chip index would have to grow at an annualized rate of just shy of 4% to reach the million milestone in September of 2117, eminently achievable given its 5.8% annualized climb over the past century. Such a seemingly bold, but numerically conservative, claim makes for a great headline, but also serves to lift us out of the present when other headlines are dominated by meteorological and geopolitical storms that create temporary uncertainties for the economy and markets. We're in this for the long haul, and future generations will appreciate the rewards that accompany a healthy dose of conservative tenacity.

On the subject of market milestones, it's been a bumper year so far with the S&P 500 and The Dow Jones Industrial Average (DJIA) notching 39 and 41 record closing highs to the end of September. The S&P 500 closed on September 29th at 2,519 representing a positive return of 4.49% for the third quarter, and 14.25% for the first nine months of 2017. The DJIA ended September at 22,405 for a return of 5.58% in the past three months and 15.44% for the year to date.

As is most often the case, returns so far this year have not been universal across sectors. With individual exceptions, broadly speaking technology stocks have massively outperformed and aerospace / defense, alongside healthcare industries, have also been winners. Retail and apparel, as well as auto parts and oil and gas have been among sector laggards.

A quarter-end impetus that bolstered U.S. market gains was provided by the central bank shedding light on their plan to begin slowly downsizing their $4.5 trillion balance sheet holdings of treasuries and mortgage-backed securities, which it had gobbled up in its quantitative easing (QE) efforts. This signals an official start in October of the reversal of its crisis-era stimulus program. It will begin by cutting up to $10 billion

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We utilize a disciplined, fundamental approach, applying rigorous, independent research with the objective of delivering long-term performance that achieves the investment goals of our clients. We offer managed equity programs with a value-oriented focus, in addition to a balanced managed program with a higher current income priority, as well as tailored fixed income advisory services.

from the volume of maturing securities it reinvests each month, although no clarity was offered regarding the eventual end-point of the balance sheet size the Fed is aiming towards.

At the end of the same September meeting, the Fed left interest rates unchanged at 1-1.25%, while leaving the door open for another rate rise this year – probably in December – with further likely to come in 2018. Foremost in the minds of many are the recent hurricanes that have devastated Puerto Rico, and wrought havoc in areas of Texas, Florida and regions beyond, but the bank expects the impact to be transitory, and remains generally buoyant in its economic outlook. Fed Chair, Janet Yellen, admitted to being unable to fully pinpoint the causes of the inflation dip this year, but said the numbers were being watched "closely" with the bank poised to intervene with monetary policy if the trend persisted. The Fed's measure of inflation, which excludes volatile energy and food categories, came in at 1.4% in July, down from January's 1.9%. Such policy decisions will likely be made under the leadership of a new Chair presiding over an almost entirely new Fed board next year.

Bond market figures also reflect a majority expectation of one more rate rise this year with the yield on the 10-year Treasury note climbing to 2.33% at quarter-end from its year-to-date low on September 7th of 2.05%. Built into this upward momentum is a projected pick-up in growth and inflation creating conditions that would allow the Fed to press forward with the next phase towards a more normalized interest rate environment. Although the 10-year rate is well above the recent lows of June 2016 when it dipped below 1.5%, the post Presidential election optimism surrounding economic growth prospects that sent the rate above 2.5% has waned. Still, Ms. Yellen was clear in her statement that "We believe the recovery is on a strong track," the unemployment rate is holding near a 16-year low, and Fed officials lifted their average gross domestic product growth estimates to 2.4% from 2.2% for this year.

In political news with direct economic impact, previously opposing members of the Senate's budget committee announced that they had reached a "path forward" for tax reform that would lead to an overall tax cut over a ten-year period. The magnitude of the cut was not stipulated, but other Republican Party lawmakers peg the reduction at $1.5 trillion over the course of the decade. While tax reform and reduction may prove popular with voters and the business community, especially leading up to 2018 midterm elections, concern has been voiced about the potential contribution of such measures to the large and growing national debt. In his campaign, President Trump castigated Mr. Obama for overseeing the ballooning of the figure from below $11 trillion to approaching $20 trillion during the Democratic leader's tenure. The 86% increase over the eight-year period is indeed a staggering figure, notwithstanding the mammoth investment bills rolled out by President Obama and his predecessor, George W. Bush, to spur the country out of the depths of the economic crisis.

Donald Trump has expressed confidence that his administration's policies and stimuli will result in strong and sustained economic growth that will offset reduced tax rates. The broad agenda recently outlined by Mr. Trump includes reduced taxation for corporations to 20% down from 35%, a 25% rate for pass-through businesses, an elimination of estate tax, increased write-offs for business investment, and a one-time repatriation tax on corporate profits and assets from overseas at a lower rate. There are also some proposed changes to taxation of individuals, although there is debate as to which income segments of the population will benefit most. One certainty is that achieving any significant tax reform will be a test

of fire for Treasury Secretary, and former Wall Street banker, Steven Mnuchin, at the start of his political career. While the recent agreement to raise the debt ceiling and fund the government through the end of the year provides some breathing room for agreeing reforms, there is a reason that we have to go back to 1986 to document the last major tax-code overhaul; widespread changes in taxation is a complex undertaking with ramifications for all economic matters.

The second overhaul that Republicans strived to reach consensus on was the latest GOP Health Bill that attempted to unwind the Affordable Care Act (ACA). The revised version of the bill included elements designed to appeal to the more conservative hold-outs in the party, including granting greater autonomy to states in the reversal of certain ACA mandates. Specifically, states would not be required to seek approval from the Department of Health and Human Services (HHS) to waive insurer obligations to cover certain benefits such as maternity and mental health. In addition, insurers may not have been required to apply for a waiver in order to augment premiums for older customers or those with pre-existing conditions. Moreover, the bill could have seen the end of ACA imposed limits on maximum out-of-pocket expenses for policy holders, creating a space for low premium policies with high deductibles. Dissidents continued to voice concerns that the most vulnerable in the healthcare system (the sick, elderly and low-income populations) would be worse off or uninsured. With the revised proposals expected to be opposed by all Democrats and independents, coupled with a 52-48 Republican majority in the Senate and more than two opposing GOP Senators, the bill floundered on precarious ground and was scrapped at the last minute before the September 30th vote deadline.

President Trump is also encountering opposition to his agendas abroad with the potentially alarming escalation in the exchange of rhetoric between Mr. Trump and North Korean leader Kim Jong Un, whom the U.S. President recently called a “madman” on the back of declaring America might have to “destroy” North Korea if forced to take action. Mr. Kim retaliated by referring to Donald Trump as “mentally deranged” followed by the North Korean foreign minister announcing his country’s belief that the U.S. had effectively declared war on their country, which would justify shooting down American bombers in international airspace. The U.S. is not short of international allies when it comes to supporting the shutting down of North Korea’s advances in its nuclear weapons program, and the hope remains that draconian economic sanctions, the curtailment of trade and high level diplomacy can avert serious military intervention. Even China, North Korea’s erstwhile economic facilitator, has taken the unprecedented step of imposing sweeping financial sanctions involving the freezing and winding-down of bank loans. The markets, by and large, have been pretty sanguine so far over the unfolding of events, with the tensions exerting a dampening effect rather than a marked dip.

Over in Europe, Angela Merkel will serve for a fourth term as Germany’s chancellor after her center right party secured a third of the vote, although the figure was markedly lower than the 41% achieved in 2013 elections. Ms. Merkel will lead a coalition, albeit with diminished leverage. The anti-immigration, Eurosceptic and far-right AfD (Alternative for Germany) came an historic third, marking a significant turning point in postwar German political sentiment, partly flamed by a backlash by some voters against the massive influx of refugees in recent years. The AfD party, however, immediately fell into disarray following the resignation of its leader.

Extreme-right politics have yet to garner any significant legislative clout in the West, but loyal factions are digging in and vocal, as evidenced at home by the August gathering of white nationalists in Charlottesville that devolved into violent clashes with counterprotestors.

Meanwhile British Prime Minister Theresa May is making attempts to un-muddy the water when it comes to the specifics of what a post-Brexit relationship between her country and the European Union will look like, what the framework of a transition period after March 2019 will be and how much Britain will be on the hook for budget-wise as it extricates itself. Nothing has been officially hashed out, but Ms. May seemed to indicate that Britain would make good at minimum a €20 billion ($24 billion) post-Brexit EU budget hole and is seeking a transition period of at least two years post-divorce. Indications are that Brussels finds that figure low but, as one EU diplomat put it in reference to breaking the recent negotiation deadlock, “We will at least have something to talk about.”

At home, the U.K. Prime Minister was also responding to Britain’s fifth terrorist attack this year as a crude bomb injured over 20 people on a London Underground train during morning commuter rush hour. Teresa May is heading the country during challenging times and at her Conservative Party’s annual conference next month the question of her leadership is likely to be a main focus.

With Puerto Rico without power and tens of thousands homeless in the wake of Hurricane Maria, Hurricane Harvey setting records as America’s most severe downpour, and – very close to home – areas of Tulsa still being rebuilt following the tornado that ripped through midtown one early morning this August, Mother Nature has not been short of reminders of how little control we sometimes have over our environment. Yet we do get to control our reaction, and the nation has witnessed innumerable acts of resilience, compassion and a determination to move forward. Analogously, as an individual investor we rarely feel any control over the ‘big picture’ macro-economic or market trends, but we do get to examine and evaluate individual companies and opportunities and react accordingly in our investment decisions. That is why, here at Stolper Asset Management, we continue to emulate the philosophy of Benjamin Graham, and his pupil Mr. Buffett, of seeking durable and understandable businesses, with competent management teams and a competitive advantage as well as taking a longer-term view. If future generations are reaping the monetary benefits of the Dow crossing that million milestone, those benefits will have been accrued one investment day and decision at a time. We thank you, as always, for the continued confidence you show in our decisions.

The S&P 500 is an unmanaged index of 500 widely held companies and over 80% of the U.S. equities market. The Dow Jones Industrial Average (DJIA), commonly known as “The Dow”, is an index representing 30 companies maintained and reviewed by the editors of the Wall Street Journal. The information contained in this report does not purport to be a complete description of the securities, markets or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of the investment adviser representatives of Stolper Asset Management and not necessarily those of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Investing involves risk and you can lose principal. There is no assurance any strategy will be successful. There is no guarantee that any forecasts made will come to pass. Past performance may not be indicative of future results. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. Dividends are not guaranteed and must be authorized by the company’s board of directors.