VAN LIEW TRUST COMPANY

as we see it

Winter 2017

THOUGHTS FROM OUR CHAIRMAN

In my introduction to the Holiday issue of As We See It, I stated the following:

> "These are changing times but the changes may be more gradual than anticipated. The Executive, Legislative and Judicial branches of our government will all be players in this process of change. Elected officials will push their agenda, but change will likely be slow thanks to our built in checks and balances."

The words still apply today. Are the changes coming too fast or too slowly? Are Congress and the Administration on the same page for fulfilling the election promises? Will the Administration stimulate the economy and "keep Americans safe"? It appears it is all in the eyes of the beholder. So far investors are optimistic.

Our associate Wade Walbrun in this issue of As We See It covers this subject in more detail.

Alfred B. Van Liew

To Infinity and Beyond!

Wade Walbrun

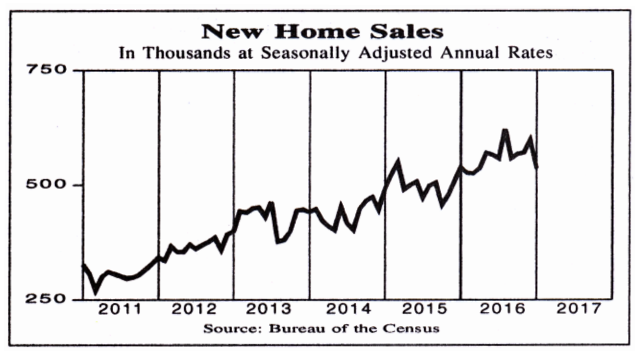
Heard proclaimed exuberantly by Buzz Lightyear in the movie, Toy Story, the phrase "To Infinity and Beyond!" connotes the sense "there's no stopping me now" and "the sky is the limit". It's a confident, declarative statement not of what may happen, or is likely to happen, but what WILL happen. In many ways the stock market displayed a similar attitude directly following the presidential election as the Dow Jones Industrial Index powered up more than 2000 points eclipsing the 20,000 milestone. The prevailing sentiment among investors seemed to be an enthusiastic "hooray" for the proposed economic policies of personal and corporate tax reform, cash repatriation, regulatory reform and increased infrastructure spending. In the swift market rise there seemed less focus of the actual details, simply the steadfast notion that all of this will come to pass in the most beneficial manner. Investors reaction so far is indifferent to modest economic reports, Federal Reserve actions and commentary and potential roadblocks to the execution of these proposed changes.

We are optimistic, and believe fiscal policies will be enacted and will increase future domestic economic activity. But, we worry, when the euphoria settles, whether investors will be disappointed by the reality. For example, corporate tax reform. Certainly, there seems to be a consensus that reform is needed but what will the final version look like? President Trump outlined a 15% corporate tax rate, while still others call for a more modest 20-25% rate. We believe ANY tax relief would be beneficial for businesses, but we recognize the expectation of a 15% rate and the reality of, say, a 22% rate, could be considered by market participants as a letdown. As such, investor expectations and enthusiasm may have to be tempered and the fair value of equity prices adjusted. Then, there's the added question of the timing of the proposed changes. Will the new policies be enacted in the first 90 days or late 2017, or maybe pushed into 2018? Will they be retroactive? The same story goes for the rest of the proposed fiscal measures. Such questions and uncertainties not only affect investor sentiment, but can influence CEOs' expectations of how and when to use their company's resources which can, in turn, affect corporate earnings growth.

While concrete results from stimulus and reform measures may not be felt until further down the road, we see many other developments now that seem to indicate better times ahead. Consumer confidence, as measured by the latest University of Michigan survey, recently reached a 12 year high and may indicate more robust consumer spending in the near future as consumer spending typically lags confidence by a one quarter. A recent NFIB Survey of Small Business shows optimism has improved, too, to the highest level since December 2004. That could breathe life into dismal durable goods orders experienced in the last year. Meanwhile, the energy sector, a significant headwind to corporate earnings in 2016 may help earnings in 2017. The price of oil has risen from just below $30 a barrel a year ago to over $50 a barrel today. Such a move is in sharp contrast to weakness experienced in oil prices in 2016. That weakness negatively affected earnings and profit margins, not only within the energy industry, but muted overall market earnings growth by approximately 3-4%, as measured in the S&P 500 Index. Earnings in the energy industry are expected to rebound significantly in 2017.

Lastly, consensus expectations of earnings growth in the S&P 500 currently stand around 11% for 2017. Not so bad, compared to essentially flat earnings for corporations in the broader market last year. Throw in added measures of a rebound in the energy industry and potentially economically stimulative policies, and it seems investors have something to feel good about. We think we may be in a more volatile stock market environment in 2017 as investors navigate through all the variables, but believe stock market prices could move higher. Perhaps not "To Infinity and Beyond!", but certainly beyond current levels.

TRENDLINES



Milennials have recently surpassed Boomers in numbers but their levels of home ownership are significantly less. Income levels are improving for Milennials and as they get closer to 30 years of age we think they become the driving force in the single-family home market.

We would be delighted to meet with you to share comments about this article, or to review your portfolio in detail.

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