WELLS TRECASO
FINANCIAL GROUP

Portfolio Talk
Fourth Quarter 2017

Wells Trecaso Financial Group
Ralph, Doug, Chris, Michelle, Andrea

Douglas E. Wells
Managing Director
Chief Investment Officer
(330) 752-4843

Ralph E. Trecaso
Managing Director
Family Wealth Advisor
(330) 752-6093

Christopher C. Walters
Managing Director
Portfolio Manager
(330) 242-0580

Michelle L. Weaver
Client Service Director
(330) 752-8825

Andrea B. Otte
Client Service Director
(330) 752-8825

Welcome all to the new Portfolio Talk from Wells Trecaso Financial Group. Even though Ralph and I started our group in 1991, being our own Registered Investment Advisor has a feeling of freedom we've not experienced before. So should I say, here's to Wells Trecaso Financial Group 2.0!

On the Market

Ray Dalio, Chairman and Chief Investment Officer at Bridgewater Associates, made a comment on CNBC Squawk Box recently that kind of sums up where things are! He referred to the state of our US economy as being in the "Goldie Locks" phase meaning almost everything is lining up to be not too hot and not too cold, but just right.

- Monetary Policy — Accommodative
- Inflation — Mild
- Corporate Earnings — Accelerating
- Government Regulation — Easing
- Global Growth — Accelerating
- Consumer Confidence — Growing
- Idle Cash — Historic High
- Investor Sentiment — Not overly Bullish

Then, as he said, you get a massive jolt of stimulus from tax reform and things even get better. It's our belief that with "The Tax Cut and Jobs Act of 2017" corporate earnings could improve rather dramatically. According to JP Morgan's "Tax Cuts & Jobs Act of 2017" analysis dated December 19, 2017, once implemented corporate earnings would increase to $156.60 up from an earlier estimate of $146.00 for the S&P 500 Index in 2018. That's approximately $11.00 more in earnings to the index! With an average multiple for the index dating back to 1926 of 18.6x, the S&P 500 could advance to 2,912.76 ($156.60 x 18.6). At a current value of approximately 2,700.00, the potential gain in capital is 7.0%! Add to that a dividend of approximately 2.0% and that would get us to a 9.0% total gain for the rest of 2018! However, we know that markets rarely trade at average. They either trade above average when times are good or below when times are challenging. Given the commentary by Ray Dalio I'd say we're on the positive side of average.

So, where to from here? Year to date the leaders still stack up the same as they have for the last 52 weeks (as of January 29, 2018):

	YTD	52 wks
MSCI Emerging Markets	9.94%	42.40%
Russell 1000 Growth (Lg Cap)	8.64%	36.03%
NASDAQ	8.76%	34.17%
MSCI EAFE (International)	6.54%	29.53%
Russell 1000 Value (Lg Cap)	5.97%	18.49%

But going forward do we see the same momentum, or is there a shift afoot? I'd argue that momentum is shifting. Not so much from the Emerging and International markets, they're still in recovery mode with quantitative easing. However, with the U.S. markets large cap value is starting to show signs of gaining momentum. Financials, industrials and healthcare are reaping benefits from tax reform and interest rates. Take financials for example, Jamie Diamond stated late last year that for every 1% move upward in Fed Funds Rates it adds approximately $1 Billion to JP Morgan's bottom line, that's substantial! Industrials, given the ability to repatriate funds held overseas and a tax rate dropping up to 14% (35%-21% = 14%) gives them more earnings to pay down debt and expand operations, making them more effective globally to compete.

Healthcare may be the trickier one. Even though they'll reap the same benefits as industrials, they are in the midst of "disruption" given the cost of healthcare! The companies that can figure out how to provide meaningful care at a reasonable price will win. Companies that focus on solutions; data aggregation software, biogenetic engineering, consolidation and partnering with others will win at the end of the day. And then there are those companies that for one reason or another fall out of favor with the street for what we believe are unfounded reasons. The trick is, don't fall in love with a company, follow the fundamentals and let them be your guide.

That leads me to my final point. The FANG stocks, (Facebook, Amazon, Netflix and Alphabet) are still leading the way as far as pushing the indices higher. Last year they accounted for almost 40% of the return of the S&P 500. What's even more telling is that in a report by Bob Pisani, published on October 31, 2017, five stocks account for 52% of the gain in the S&P 500 according to Standard & Poor's. Without technology, the S&P would have only advanced .5%! So I guess the long story short is are we facing another Tech Bubble? I'm not so sure that's the case. The Tech Bubble was caused by bringing to market companies that had a business plan but <u>no business</u>. It was the era of the "Dot Com". Attach that to the company name and its price soared! Kind of like "Block Chain" today, maybe? Fundamentals on Alphabet/Google and Facebook are actually reasonable. Amazon and Netflix are at nose bleed levels, but the question is can they grow into their current valuation like we have with Facebook and Google? Time will tell.

Market volatility has risen in the past few weeks, but don't let fear and emotion push you into thinking the markets are not safe. Short term markets will always be less appealing for stability of principle. However, long term we believe it's the best investment. Warren Buffet would agree!

<u>SAVE THE DATE!</u>

We will be having an

Open House

Thursday
May 17, 2018

3560 West Market Street, Suite 340
Akron, OH 44333

More details to follow!

IMPORTANT DISCLOSURES

The information set forth was obtained from sources believed to be reliable, but we do not guarantee its accuracy or completeness. Past performance is no guarantee of future results.

The views expressed herein are those of the author. All opinions are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results.

This information has been prepared solely for informational purposes only and is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or other financial instrument, or to participate in any trading strategy.

Past performance of any security is not a guarantee of future performance. There is no guarantee that this investment strategy will work under all market conditions.

Holdings are subject to change daily, so any securities discussed in this profile may or may not be included in your account if you invest in this investment strategy. Do not assume that any holdings mentioned were, or will be, profitable.

The performance, holdings, sector weightings, portfolio traits and other data for an actual account may differ from that in this material due to various factors including the size of an account, cash flows within an account, and restrictions on an account.

Top holdings, sector allocation, portfolio statics and credit quality are based on the recommended portfolio for new investors as of the date specified. Holdings lists indicate the largest security holdings by allocation weight as of the specified date. Other data in this material is believed to be accurate as of the date this material was prepared unless stated otherwise.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

Tax laws are complex and subject to change. Wells Trecaso Financial Group, LLC does not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise agreed to in writing by Wells Trecaso Financial Group. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

Securities offered through IFS Securities, Inc., Member FINRA/MSRB/SIPC. 3414 Peachtree Road NE, Suite 1020, Atlanta, GA 30326. IFS Securities Inc. and Wells Trecaso Financial Group, LLC not affiliated. Securities offered through IFS Securities are NOT FDIC INSURED, NOT BANK GUARANTEED, and MAY LOSE VALUE. Please contact your financial advisor for information regarding specific investments. Investing involves risks, including possible loss of principal. Please consider the investment objectives, risks, charges and expenses of any security carefully before investing.