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Greetings,

Despite the strong return of the S&P 500, this market has not had broad based participation. Small and mid-cap stocks have trailed large caps by a significant margin. Large cap growth stocks have pummeled value stocks. Even with the broad market just off its highs, there has been significant volatility with individual stocks. Our technology holdings are well off their highs despite the fact that the broad market is just off its all-time high. Within the large cap universe, the retail sector has been a wreck as Amazon.com is obliterating any and all competitors. Financials have trailed the broad market as the big banks have lagged despite a recent bump. Big banks are being hurt by the flattening yield curve. The energy sector is in a bear market as the price of crude oil is just off 8 month lows and down nearly 15% over the last month. Fortunately, we have no exposure to the retail sector and no exposure to the big banks (the companies that were primarily responsible for sinking both the market and the economy in 2008) nor will we. We do have a small exposure (market weight) to the energy sector. I don't believe that crude oil prices will stay this low forever. The only way that you can make money (unless you are a momentum player) is to have the position in equities before they turn around. I am not much of a contrarian investor. However, with valuations stretched and most stock prices near or at all-time highs, taking a relatively small position in several energy stocks seemed like a smart move. The key is that you have to have a time frame longer than a year. I also prefer not to have all of our eggs in one basket and as it stands now, we already have a concentrated portfolio with an overweight position in the previously hot technology sector. Emphasis on the word "previously" because technology stocks have been hit over the past several weeks. Within the technology sector, the semi-conductors in particular have been slumping as they are down 5% over the past month. We have an especially large position in the semi-conductor stocks, which is the primary reason why we haven't been doing well lately, despite our strong YTD numbers. Under the heading, too much of a good thing could be harmful, my preference is not to be any more concentrated than we already are. One of the reasons that we are doing well this year is because of our concentration with the right stocks and sectors. Anyone who has a more "typical" diversified portfolio is underperforming this year, possibly by a lot.

The bond market continues to show remarkable strength as the 10 year Treasury bond is just off its lowest yield of the year at 2.3%. The Federal Reserve is raising short term rates ever so slowly but prefers to wait to unwind its balance sheet of Treasury bonds for the time being. There is some chatter that they will unwind its' balance sheet later on in the year. The bond market is usually (not always) a pretty good indicator of future economic growth. The bond market is indicating that there will be very little if any economic growth on the horizon. In other words, no improvement other than the tepid, anemic growth that the US economy has now. Congress, along with the Presidential administration are doing their very best to repeal and replace Obamacare (also known as the affordable care act) which should be followed by some form of Tax Reform. Since the Senate can't agree on a replacement for Obamacare, it appears to be business as usual on Capitol Hill. Senator Mitch McConnell (the Senate Majority leader) has already postponed the vote for the Senate version of the bill until after July 4th. Congress returns to work on July 10th or at least what they perceive to be "work". What that means, is not only is there no guarantee that it will pass if they have a vote in 2 weeks but even if it does, there is only three weeks for the House and the Senate to reconcile their two bills and pass into law before the five week "summer recess". Larry Kudlow (a regular commentator on CNBC and someone who is center right as far as his politics) just made a rather astute comment on CNBC as I am writing this. He said that the Congress should postpone its 5 week summer recess so that they can roll up their sleeves and work hard (like the rest of us) to get things done. Let's face the facts, the Republicans have been waiting for this opportunity to repeal and replace Obamacare for 7 years and now that they are close, they go on "vacation"? You have to be kidding me. While Mr. Kudlow's comment is logical, knowing Congress, I would say it is unrealistic. It is possible that the Presidential administration will see if Obamacare can die on its own with so many insurance companies already pulling out of the exchanges and just move on to tax reform. My concern about any possible tax "reform" is that even with the Republicans having majorities in both houses of Congress and the White House, I am not certain that they will be able to agree among themselves on what to do.

With the stock market being so sloppy the past several months, I have the feeling that the gridlock in Washington DC is finally having an effect on the market. The market does not like uncertainty. I did write in my January investment letter that the furious rally in the market post-election was predicated on the fact that President Trump will get everything that he wanted. We are now seeing that might not happen, at least not for a while. Corporate earnings were very good last quarter but that was mostly the result of beating some very low comparisons from last year. A major reason why corporate profits have been improving is because growth from outside the US is improving. With International economies slowly on the mend, the dollar hasn't been strong as it was last year. The dollar not being strong has helped multinational large cap companies, many of which make up our portfolio.

Please by all means call or email me if you have any questions or anything that you want to discuss.