

# WHITENER

## CAPITAL MANAGEMENT, INC.

Registered Investment Advisors

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2016 ends with a number of mixed feelings. It seems that the entire year has been an exercise in bouncing from one extreme to the other with little rest in between. The markets had the worst start in 2016 ever. Since market data has been recorded, we had the worst start ever. The S&P500 ended the year up over 12%; yet most of the performance was focused in a handful of companies. It seemed that every other week there was a new crisis in one of our major cities. We suffered riots, protests, and terror attacks in cities all over the country and all of this was occurring as one of the most contentious election cycles in recent memory played out. All of the chaos and noise made it difficult to focus on what matters as it pertains to investing. Investors should be focused on the economic environment and economic growth. If we grow, corporate earnings will go up. If we grow, tax receipts are higher. If we grow, our debt becomes more manageable. If we grow, wealth and confidence will improve. Growth has to be the goal for 2017.

### Equity

Valuation Measure	Description	Latest 12/31/2016	25 year average
P/E	Price to Earnings	16.9x	15.9x
P/B	Price to Book	2.7x	2.9x
P/CF	Price to Cash Flow	11.5x	11.4x
Div/Price	Dividend Yield	2.2%	2.0%

\*Data as of 12/31/2016 - Current price divided by consensus analyst estimates of earnings, book, cash flow, sales and earnings growth for the next 12 months. Data provided by J.P. Morgan Asset Management

The S&P500 and The Dow Jones Industrial Average had a good year but it was odd. The 12% return in the S&P500 was very focused into a handful of companies. Most of the rally in the DJIA during the last quarter of the year was focused in just three companies. UnitedHealth, Caterpillar, and Goldman Sachs were responsible for half of the performance during the last 6 weeks of the year while most of the market did not participate in the rally. Many portfolios were left behind but as earnings continue to improve more companies will start participating. The broad market is trading slightly above historical averages but as you look just below the surface there is a lot of value. The indices are trading slightly above their averages but many companies are trading below their historical norms and given the possibility of a corporate tax cut, they are cheap. Given the possibility that the rate of economic expansion will increase over

the coming months, they are trading below average. GDP growth and a tax cut aren't given but the odds of at least one is high and this could be the spark needed to ignite another pop in the current bull market.

### **Fixed Income**

After years of rates being artificially held down, interest rates are starting to normalize. Rates on the 10 year treasury bond moved from 1.6% to 2.45% in the last quarter of 2016. That may not seem like much but it is a 53% increase in the yield and resulted in a loss on the principal value. The Barclay's Aggregate Bond Index fell by 2.98% during the last quarter of 2016 as the DJIA rallied over 8%. The Federal Reserve Board has stated their intent to raise rates three times during 2017. I don't feel that they will follow through with all three but it is certain that they feel confident that the economy can handle higher rates.

### **Economy**

The economy has ended another year under-performing but things are looking stronger. Household debt as a percentage of disposable income is at a 35 year low. Household net worth is at record highs and small business optimism is at its highest level since 2004. Housing starts are almost back to their long-term average and light vehicle sales are above their 20 year average. We have a situation where we have all of the components for a better economy at the same time that we have the optimism of the business community. Having all of the pieces and the mindset to put them to work is a recipe for economic expansion.

### **Conclusion**

2016 was a good year as measured by the DJIA and S&P500 but those numbers are a little misleading. Most companies did not have a year inline with the market averages. Performance was focused in a handful of companies but that leaves the door open for a lot of opportunity going into 2017. Financials have had a nice rally and have more room to run. Although energy had a nice rally, I don't think they can keep it going long-term. There is no near-term catalyst to push oil back towards \$100/barrel. Most likely \$50-\$60/barrel is the new normal with short-term moves above or below based on headlines. Technology and healthcare should have a good year in 2017 along with the consumer sectors. There are a number of political landmines waiting for us but that is why we properly diversify. We can't avoid all of the pitfalls of investing but we can minimize the downside.

Wishing everybody a Happy and Prosperous 2017,

A handwritten signature in black ink, appearing to read "Rick Sanford", with a long, sweeping flourish extending to the right.

Richard L. "Rick" Sanford, II  
President/Portfolio Manager