WILSON CAPITAL
INVESTMENT ADVISORY

We feel investors should have an information outlet for the financial markets that is thorough, but does not require a prerequisite degree in economics. We hope this makes our commentary informative and educational for all levels of investors. We have also included a glossary at the end of this commentary that defines terms marked with an asterisk (*).

Quarter in Review

Asset Class†	1st Quarter 2017 Return	Past 12 Months
International Stocks	7.9%	13.1%
U.S. Large Cap Stocks	6.1%	17.2%
U.S. Small Cap Stocks	2.5%	26.2%
U.S. Bonds	0.8%	0.4%
Commodities	-2.3%	8.7%

The 1st quarter of 2017 continued the stretch of positive returns for stock markets both domestic and abroad, while bond returns remained subdued amid expectations of higher interest rates. In general, events directly related to the stock and bond markets were largely absent during this quarter, which may be due in part to the public adjusting to the era of the Trump Presidency. On that front there was no shortage of daily fodder, but perhaps less upheaval related to the markets than was expected in the post-election period.

Botched rollouts of immigration and health care policy reform by the new administration were among the most notable events of the quarter. These, along with a slew of contentious White House cabinet appointments and a heated Senate battle over Supreme Court nominee Neil Gorsuch, stole the spotlight from most market events. Tax reform, which has bi-partisan support and was discussed at length in the previous quarter's letter, remained on the back-burner where it may stay until cooler heads prevail both within the White House and in the halls of Congress.

Among the biggest market-related events, disappearing-message company Snap (ticker symbol: SNAP) went public during the quarter, hitting a market valuation of $34 Billion in its first day of trading, despite its founders admitting that the company may never turn a profit. In other headlines, the market value of electric carmaker Tesla (ticker symbol: TSLA) surpassed Ford (ticker symbol: F) despite being outsold on vehicles 52 to 1. These are just two examples of the exuberance on Wall Street for companies that sell dreams rather than realities.

Outlook

Where the economy and the markets will head next is the eternal question du jour with anyone associated with investments. As this letter has discussed in quarters' past, under many circumstances there is a prevailing sentiment or mindset that permeates through the industry. The sentiment now seems decidedly unsettled and divided.

The bull* can point to continually low unemployment numbers, a low-enough interest rate environment that still encourages lending, and a pro-business President Trump that has shown to be less volatile than expected. The bear* sees a labor market where many people are still stuck on part-time jobs, a rising interest rate/inflation environment that could snarl growth, and a President with no political experience who recently discovered that foreign military intervention could help his approval ratings. Neither camp is wrong—the two perspectives reflect different views of the same current market landscape and where it might head next.

While this division is not a “normal” position for the market it isn’t at all unprecedented and as recent history has shown it can lead to varying results. The period of 2005-2007 had been a relatively positive time for the financial markets. During that period a wide swath of pros saw a picture of increased wealth for all Americans with few predicting an all-out collapse of the mortgage and banking industries. Today, we know that divided view on the world quickly coalesced once the storm clouds developed in the spring of 2008 that led to the autumn market crash. On the flip side, during the summer of 2011 some investors predicted certain doom as congress refused to raise the debt ceiling*, which many believed would de-rail the rapid recovery since 2008 and put the U.S. financial system in a death spiral. In that case, the vocal group’s fears were unfounded as the government never fully shut down and despite a 6-month correction in the 2nd half of 2011, the U.S. markets have spring-boarded higher.

While it is always helpful to look at history for context, the next big move in the market could very well come from events that begin far from Wall Street. Bi-partisan tax or health care reform could yield a positive market response, while a more aggressive foreign policy platform could be disruptive to markets. At this point however, there is no way to accurately handicap those or any of a handful of possible market moving externalities.

Glossary

Debt Ceiling - The Constitutional limit of borrowing allowed by the U.S. Treasury and is approved by the Congress. This borrowing, or debt, pays for everything ranging from government salaries to social security benefits. The ceiling has been raised as a regular course of business many times, but in recent decades it has come under more scrutiny under a ballooning federal budget.

Bulls and Bears - Centuries old terms used to describe positive (Bull) or negative (Bear) market sentiments. The origins are disputed, but the term may be due to bulls lifting their horns upward to attack, while a bear swats its paws downward.

† Indices used to represent asset classes:
U.S. Large Cap Stocks – S&P 500
U.S. Small Cap Stocks – Russell 2000
International Stocks – MSCI ACWI ex-U.S.
U.S. Bonds – Barclays Aggregate
Commodities – Bloomberg Commodity

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