Leigh Baldwin & Co.

Investment Brokerage

The year 2016 will go down in history for many reasons, not the least of them being the incredible number of political and social "surprises". Many investors were surprised, and relieved, as stocks finished the year on a tear, taking what had been a two year flat line of growth, and making it the best post-election move since 1952 and the best annual gain in 3 years. For the record, the Dow finished 2016 up 13.4%, the NASDAQ climbed 7.5% (fifth straight year of gains), and the S&P rallied 9.5%. Interestingly, we are reminded that the year began in a menacing manner, dropping 6% during the first week of 2016, the worst start to the markets in history. Surprise!

If stocks were resilient in 2016, much of that can be attributed to a new feeling of a less restrictive government, paving the way to better economic growth in 2017 and beyond. While the anticipated economic gains of a change in Washington have yet to play out, the financial services industry certainly benefited the most, rising about 20% in the fourth quarter alone. Lagging behind were the real estate and utility sectors (which are influenced by higher interest rates) and healthcare. We would suggest that healthcare, and in particular large cap Pharma and Bio-tech, may be areas worth a look as the emotion of political change settles in with reality.

In the technology sector, the FANG stocks (Facebook, Amazon, Netflix, and Google) lost a bit of their bite after two years of tremendous moves higher. The laser-like focus of everyone in Silicon Valley is now squarely on the growth of AI or artificial intelligence, witnessed by the 250% move higher in video chip maker Nvidia, the best performing stock in the S&P 500. Although it is hard to get our arms around, AI is expanding rapidly and the thought of driver-less trucks and cars is a real thing. The idea of losing jobs to Mexico is concerning, but the real loss of jobs now and into the future will certainly be led by an increase in robotics and automation. For investors (and politicians), we are probably still in the very early stages of this, so stay tuned.

Looking out to 2017 and the years to follow, we continue to believe that there will always be investment opportunities. Companies are still flush with cash and will possibly be bringing more dollars into the US from around the world. Innovation continues to be nothing short of amazing. There is some risk for fixed income holders, as interest rates begin to rise, but with the German 10 year bond at less than ½%, money will still flow to where it is treated best. Stock valuations are at historically higher levels, so equity investors will be looking for GDP growth to expand the E of the P/E ratio. We will continue to recommend a balanced portfolio of stocks, mutual funds, and various fixed income ideas with the management of risk and cash flow our primary concerns.

I do not believe that anyone would suggest that there will not be any surprises in the years ahead and we will continue to navigate the investing landscape for ideas that will help you reach your goals. We wish everyone a happy, healthy, and prosperous New Year and we thank everyone for their continued support of us.

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