Leigh Baldwin & Co.

Investment Brokerage

Was it Kierkegaard, Nietzsche, or Dick Van Patten that was attributed with the expression "That which does not kill us, makes us stronger." I will go with Nietzsche. In response to the financial crisis of 2007-2008, the federal government stepped in (closing the barn doors after the horses had long left) and created rules and regulations to prevent another easy money crisis involving home owners. Ironically, the mortgage and credit bubble of the early 2000's was also inspired and in many ways created by the US government. In text book fashion then, the public sector creates an economic crisis and after the damage has been done, overreacts to the issues at hand. One key issue currently suffocating our economy is housing or the lack thereof.

On March 27th, the Wall Street journal reported that the decline in home ownership rates has now reached a fifty year low. During the fourth quarter of 2016, the home ownership rate was approximately 63.7%, below the typical level of 65%. That difference is significant to the economy, as by some estimation, a return to the long term average would have boosted GDP up by 1.8%. The economic recovery has been stale for the past 7 or 8 years, and what appears to be a significant reason, is the lack of new housing. The cure may not be killing us, but it is surely slowing us down.

The first quarter of 2017 ended just as it finished 2016, on a bit of a tear. The S&P and Dow were both up about 5%, while the Nasdaq led the way, gaining 10% for the first three months. Big tech names were the leaders as Apple (+24%), Amazon (+18%), and Netflix (+16%) stood out. The much ballyhooed Trump trade has lost some luster, as he learns how to navigate Washington, but at the same time, economic activity and sentiment is getting stronger and may be providing another leg to this historic rally.

In other market areas, gold climbed 8% during the quarter and even with a hike in short term rates; the ten year treasury is still hovering around 2.4%. We are expecting at least two more rate increases over the next 12 months according to recent Fed data and the next few years could be tricky for fixed income investors. Now may be another good time to review your fixed income holdings. With respect to equities, at first glance, many names are fully valued and the key will be how recent economic growth expands corporate profits. Indexing is still in fashion, particularly after an eight year market rally, but at current levels, stock picking and risk management may come back into vogue. We urge everyone to review and seek advice with respect to all of their holdings, especially in times like these. We appreciate your confidence in our firm and we look forward to working with you throughout the years ahead.

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