J.W. Burns & Company

Investment Counsel

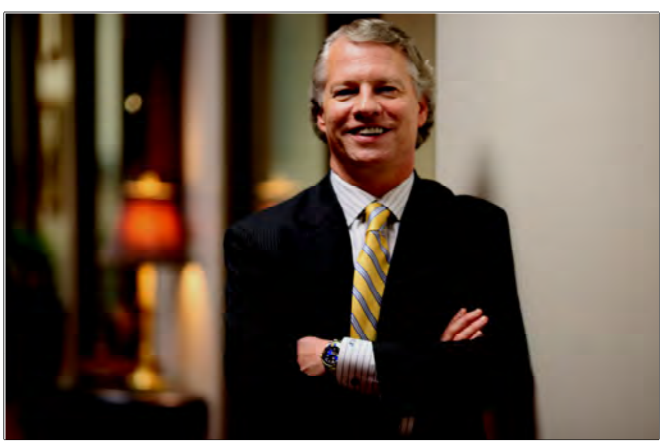
Quarterly Update - July 2017

Keep Calm and Carry On
Or
Political Drama Versus Earnings Power

"In the end, all business operations can be reduced to three words: people, product and profits."
- Lee Iococca

Dear Clients and Friends,

Since the bull market began in 2009, I've heard numerous highly-regarded market pundits make frequent predictions that a destructive bear market was on the horizon. And let's face it – it is easier to be bearish on stocks because, on the surface, one sounds smarter about markets, less gullible, and more skeptical. Yet, despite the many mar-



ket strategists who have been making consistently bearish calls, the U.S. stock market continues to grind higher.

Fortunately for the clients of J.W. Burns & Company, we have been on the right side of this trade thus far, and we believe the bull market remains intact. Granted, stocks are not cheap, but the fundamental backdrop for strong corporate earnings growth – low inflation, rising global GDP, reduced regulations, and moderately rising wages – will continue for some time. Furthermore, Janet Yellen and the Federal Reserve have made it clear they intend to be cautious with any interest rate increases, while global cash levels remain elevated. In short, our recommendation to our valued clients is to "keep calm and carry on," remaining fully invested in the outstanding growth businesses we have positioned in your portfolio that can generate durable, long-term wealth.

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In my April client letter, I stated that my best guess after the strong first quarter stock returns was that equities could raise another 2-5% for the remainder of 2017. Well, in the second quarter, the S&P 500 Index was close to achieving all that, up 3.1%, and is now up just over 9% year to date. The Lipper Balanced Index was up 2.6% for the quarter and 7.04% year to date, while international stocks remain the leader at the half way point in 2017 with the EAFE Index up 6.1% for the quarter and 13.8% year to date.

Overall, we are quite pleased with the performance of your stocks thus far in 2017, as the broad market has been favoring the high-quality growth stocks that we have positioned in your portfolio(s). Technology has been the clear leader this year though, and if you were to take out the highly-publicized FAANG stocks –

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Facebook, Apple, Amazon, Netflix and Google – the return on the S&P 500 drops almost 35%, to approximately 6%, according to the investment firm, Farr, Miller and Washington.

Despite the drama in Washington surrounding the new Trump administration, the equity markets continue to move higher for two primary reasons – consistently improving economic data and better than expected earnings growth.

On the economic front, the job market continues to expand, with 220,000 jobs added in June versus the high-end expectations of 170,000. The ISM (Institute of Supply Management) Manufacturing Index rose to 57.8 in June versus a high-end expectation of 56.0, which is the strongest report for this index since August 2014. The PMI (Purchasing Managers' Index) Services Index also rose to 54.2 in June versus estimates of 53.4 on the high end, also the highest level since January of this year.

Earnings in the first quarter of 2017 also surprised to the upside, with overall S&P 500 earnings up a powerful 14% and revenues popping 7%. After a mild, but prolonged, five quarter earnings recession in 2015 and much of 2016, we have now had three consecutive quarters of positive year-over-year earnings growth for the first time since 2011. We are currently in the midst of second quarter earnings reports, and estimates are for the S&P 500 companies to increase earnings around 6-7%, which I believe will prove conservative.

Many investors remain concerned that the gridlock in Washington or the Trump/Russia issue will derail this bull market. Certainly, bear markets can occur for any reason, at any time. However, I doubt Washington will be the catalyst. Globally, most investors' reaction to Trump ranges from trepidation to terror[1]. The more Trump's administration seems boxed in, bringing less change than many expected, the more investors will feel relief[2]. Yes, markets remain hopeful President Trump will deliver at least some corporate and personal tax cuts. However, with over 50% of S&P 500 companies' earnings coming from overseas, improving international economic fundamentals are at least as important as the implementation of the Trump agenda.

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Of course, only time will tell. The relatively new administration is unconventional and unpredictable. As I write this, the Trump agenda is struggling, to say the least, with the apparent failure of any kind of healthcare reform. Also, the low level of volatility we have been experiencing is unlikely to continue, and we encourage clients to remember that sharp, scary corrections are part of the investing process.

We like the positioning of your portfolio and are reviewing not only your current holdings daily, but numerous other growth stocks as well. With markets near/at all-time highs, it is a bit of a struggle to find compelling opportunities, but we continue to believe the investing environment remains positive. With that, let's take your questions.

Q. Please share a little about J.W. Burns & Company's research process and the culture, if you will, of the firm.

A. In terms of our culture, I would first begin by sharing a few of my favorite sayings that I use quite a bit around here. (As you know by now, I am a student of interesting quotes.) "Work hard, have fun, get the job done." – Yours truly. "Over communicate." – Sam Walton. "Money goes to where it is treated best." – Leon Cooperman.

Another of my favorite quotes is from basketball great, Michael Jordan – "Talent wins games, but teamwork and intelligence win championships."

As the leader of our great team, I have worked hard to cultivate a culture of teamwork, thoughtfulness, mutual respect, collegiately, energy, and hard work. We are a family and we intend to treat our clients like family, carefully managing your money as if it were our own. This is our promise to you as part of the J.W. Burns & Company family.

I also communicate to employees that I want a high energy, positive, vigorous work environment. In my experience, both as a business owner and as an analyst, I believe successful service-oriented firms have that "snap, crackle and pop" energy. We intend to execute on client requests superbly, promptly and with vigor. ***Furthermore, I want every employee to put their "shoulder to the wheel" and energetically work to add value to our mission of client success.*** I think that is a good summation of our culture and it has, thus far, been quite successful.

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So, transitioning to our research process, I will start from the bottom. I have never shared this in client communications, but we have quite an internship program, which has grown nicely in reputation. We have had some excellent and interesting interns and, to say the least, they learn a helluva lot here – and fast.

We work these interns very hard, informing them at the start of the internship that while they will indeed learn a lot, I am employing them for one reason and one reason only – ***to help us make money for our clients!***

As a team, we are able to generate ideas from a vast variety of sources – our own reading and research, discussions with other respected money managers who we are close to, Value Line Investment Survey, research reports from both public and private sources, watching Bloomberg/CNBC television, conferences, etc. If I or one of the other Portfolio Managers comes on to a solid idea, our lead Portfolio Manager/Analyst, along with our interns, generate an investment packet – pulling all relevant and available information we can get, including a breakdown of the company's financial statement and position. A summary will frequently be generated, and the information is passed to our Portfolio Managers.

We then do our due diligence and discuss the company being considered, evaluating where and how it would fit within the spectrum of our clients' current holdings. Sector weightings are quite important to us. In my last client letter, I discussed some of the reasons why we will hold on to a stock that may be down, for a while, from the original purchase price. Keep in mind that it is often the sector, not the stock, which is out of favor with investors. And this will inevitably change. If 2016 taught us anything beyond that polls can be worthless, it is that sector forecasts and market moves are sudden and rapid. ***Stocks move in short, unpredictable spurts.*** So, reasonable sector balance is important.

Also of importance is what type of stock it is within the portfolio – stable, consistent growth, dividend income, or an emerging disruptor/fast grower.

After in-depth fundamental research, we may decide to add a new stock to your portfolio. Our average holding period is usually multiple years, and we monitor all of our holdings with intensity. After all, in addition to our client portfolios, almost all of these holdings are in our own accounts.

At J.W. Burns & Company, we have a dynamic watch list of around 20-30 stocks at any given time, watching their price movements, information flow (such as earnings and dividend reports), and getting a better feel for the business and its industry.

Reading, absorbing information, studying new trends and industries, that is what we do here, with straightforward and rational process, and after over 30 years of refinement, I believe it works – and we are continuing to work hard at it!

Ultimately, remember you are paying us for our wisdom, judgment, and experience.

Recently, Warren Buffett mentioned that he, as well as Berkshire Hathaway's Portfolio Managers, Todd Cambs and Ted Weschler, basically spent most all of their working days reading. In fact, Buffett said, "These are the only two guys we could find that read as much as we did." Ditto for myself and the Portfolio Managers (and interns) at J.W. Burns & Company!

In closing, it is worth noting that we are now in the ninth year of our current economic recovery. In fact, this is the second longest expansion post WWII, but also the weakest[3]. However, historically, bull markets rarely end because of length, but rather due to either a recession or aggressive monetary tightening by the Federal Reserve. As neither seems likely at this time, we remain optimistic that markets can have a solid second half of 2017. The bull market remains intact.

"We encourage our clients to generally ignore the drama coming out of Washington, D.C., and focus on earnings power and the value generated by your companies."

We encourage our clients to generally ignore the drama coming out of Washington, D.C., and instead focus on the superb earnings power and value being generated by your portfolio companies.

Keep calm, carry on, and stick with quality stocks!

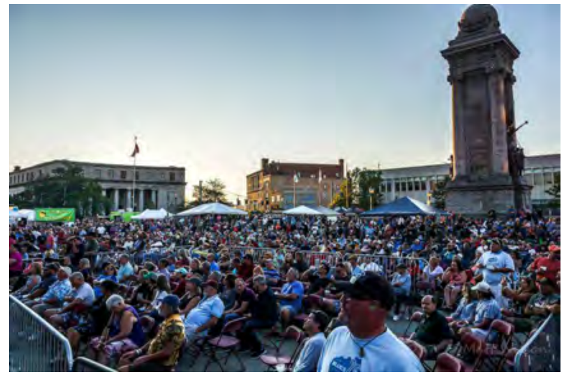
Warmest regards,

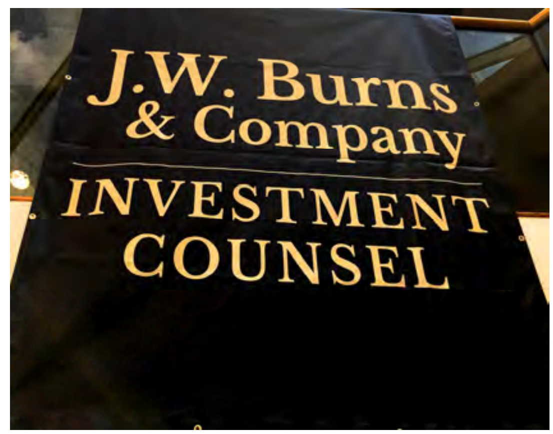
Jim

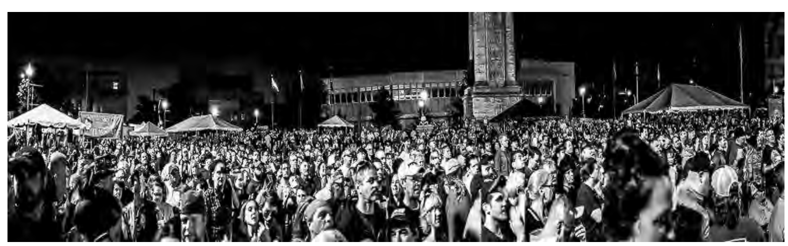
James C. Burns, CFA
President

P.S. If you look at our updated and improved website, you will see the many charities to which J.W. Burns & Company has contributed both time and money. This summer, for the fourth year in a row, we were again one of the lead sponsors for the Syracuse Blues Festival, a very popular event. Our banner looked great and I have included a few pictures from the event.

Enjoy the rest of the summer!







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Important Disclosure Information

1 - Fisher Investments, 2017 Part II, Q2 2017

2 - Fisher Investments, 2017 Part II, Q2 2017

3 - Haverford, 2017 Summer Outlook