Abner Herrman & Brock
asset management

Investment Review and Outlook **October 2019**

Investment Management is an Art not a Science

The US economy continues to grow with indications that the growth will persist into 2020 and possibly beyond. The US economy has transitioned from one based on manufacturing to a service and technology based economy. Economies benefit significantly from consumer spending which represents approximately 70% of the US gross national product (GNP). Business capital spending and Government spending each account for 17.5% of the total gross national product bring the total to 105%. This is offset by a negative 5% of net exports to arrive at 100%. Going forward it is expected that net exports will improve as a result of the restructuring of trade agreements providing a lessor negative impact on the GNP growth. Defense spending is forecasted to increase having been flat for many years. Spending on entitlements are expected to be flat to higher going forward. Further benefiting the positive outlook for the US economy is the sharp decline in interest rates. Lower interest rates will reduce the cost of servicing the US debt helping to pay for the increased government spending as well as potentially reduce the government debt.

These are positive longer term trends that are likely to help to maintain economic growth for a longer period of time. The change of moving to a service economy combined with technological innovation helps maintain low levels of inflation. Interest rates are priced relative to expected rates of inflation and the need for safety of investors principal. Today's inverted yield curve appears to be more a result of actions taken by the Federal Reserve to maintain a higher level of shorter term interest rates than a forecast of a potential recession. The market for interest rates is efficient. Thus, the intermediate term rates appear to reflect modest inflation expectations.

As we have discussed in prior letters, we believe the stock market tends to be a more accurate forecaster of future corporate profits and thus economic activity. The stock market continues to be more volatile given that some 80% of each day's trading is generated by computer programs as opposed to investment analysis. Nevertheless, these gyrations tend to even themselves out over time. Today, the stock market is trading close to historic highs indicating positive growth in corporate profits going forward. That being the case "all boats (stocks) don't rise" with an improving economy. Energy companies have been negatively impacted by the lower price of oil as more production has come online. Brick and mortar retail companies have been negatively impacted as consumers use the internet to make purchases. Pharmaceutical companies are being threatened with lower prices both from abroad as well as increased government oversight. Financial companies that rely on benefiting from the spread between the interest they charge and their cost of capital are negatively impacted as interest rates have sharply declined over a short period.

Industries and companies that appear to benefit are technology companies that create change and reduce costs. Manufacturers have benefited from technological innovation reducing costs through efficiencies which has enabled the lowering of prices. Companies that benefit from an aging population for example are the hospital supply and healthcare supply companies. Companies that continue to benefit from the movement to a global cashless society appear well positioned. Another on the list of companies viewed that will benefit is the defense sector. Defense is an industry that has not received increases in government spending for many years. The need to catch up, plus the challenges faced with the unrest globally, creates demand not only from the US but from other countries as well.

With regard to bond investments, challenges have increased dramatically given the recent sharp decline in bond yields. The dramatic decline in yields has been more acute in the government bond market. Thus, there is a wider spread between government bonds and investment grade bonds. Nevertheless, we continue to be able to add value for our clients as we identify attractive bond investments in the investment grade bond market. We ladder bonds in client portfolios to reinvest maturities at the then available interest rates. This provides AHB clients with a significant advantage when compared to those who have their assets invested in a Bond Mutual Fund or an Electronic Traded Fund (ETF) where the investor does not control the maturity and an investor is subjected to loss in value of their investment should interest rates rise.

In sum, these are challenging times for investors. Both in stock and bond investments, the challenge for the investment manager is to identify those stocks and bonds that will offer the best value and growth potential. Purchasing indexes of stocks that include all sectors may result in owning good as well as poor investments. In the past few years just 10% (50) of the stocks in the Standard & Poor's 500 Index represented 50% of the value of the S & P 500 Index. We believe the movement to packaged products of various forms of funds to beat or meet a market index has gone to extreme. Investing success will revert back to that of an "art" of identifying investment opportunities as opposed to the "science" of attempting to "game" an index that includes "all boats" (stocks and or bonds). Today, individual investors are more interested in having their assets structured to meet their specific investment objectives. Large corporations, Public Retirement Plans, and Endowment Funds employ an experienced investment officer to determine asset allocation decisions and hire investment managers to achieve the investment objectives of their Board of Trustees. Many high net worth individuals and families engage a Financial Consultant/Advisor to provide similar advice.

At AHB we manage each client's portfolio separately, utilizing only individual securities as opposed to funds, to achieve the risk adjusted investment objective of each portfolios' owner. We work with both clients and or their Financial Consultant/Advisor to help provide a positive investment experience for the owner of the assets of each portfolio.

Enjoy the upcoming Holiday Season in Good Health and Good Cheer.

Investment Policy Committee

Abner, Herrman & Brock Asset Management

Founded in 1981, Abner, Herrman & Brock Asset Management manages portfolios individually structured to assist each client in achieving their investment objectives. Stock portfolios are managed utilizing a Core Equity philosophy, investing in both large capitalization value and growth disciplines with an objective of long-term, after-tax appreciation and below market volatility. Portfolios are diversified across economic sectors, industries and companies. Bond portfolios are managed to provide a high rate of current income and total return. Portfolios are invested in staggered maturities of U.S. Treasury, government agency and investment-grade corporate bonds and where appropriate, investment-grade municipal bonds. Portfolio managers are available to meet with clients upon request.

Please visit our website at www.ahbi.com for a more detailed description of our investment **Philosophy, Process and People.**