ASCEND
Investment Management, Inc.

Quarterly Investment Report
March 31, 2017

Dear Investor:

AN ENERGETIC BULL

While more than a few political pundits and analysts frequently present President Trump as a bull in a China shop, he hasn't managed to gore any holes in our current bull market. The bull run has been punctuated with heavy volatility at times, in 2011, 2015 and 2016, but all in all stockholders have been feeling pretty good for the last eight years. In just this first quarter of 2017, stock prices have already increased 6%. Technology and healthcare stocks have gained the most; and every sector except for energy stocks has moved higher in the first quarter of the year. The so called Trump-trade bull may be looking a tad dazed of late in the wake of healthcare reform failure and concerns surrounding tax and budgetary reform. The jury is still out regarding what President Trump's overall economic impact will be in the short term.

From a psychological perspective, we think the lurking bear will lurk a little longer before pouncing. Bull markets tend to go on until investors start to believe that stocks will always go up. That's not the case yet since many investors remain circumspect and concerned that the party may come crashing down at any moment.

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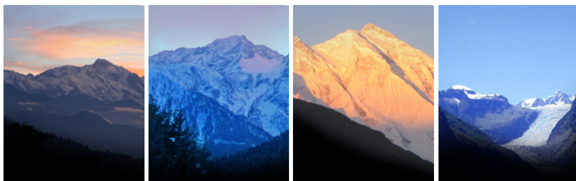

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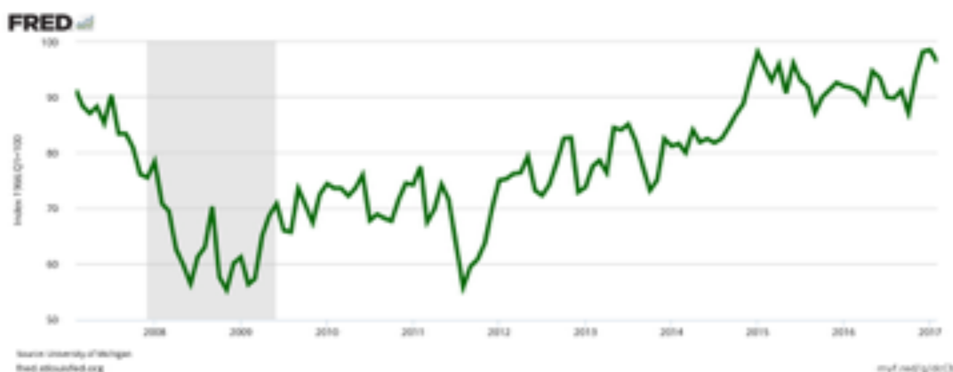
These concerns are legitimate given that stocks don't go up forever and stock prices aren't currently cheap. Because stock prices are based on underlying company earnings, how expensive or inexpensive they are changes with expectations for earnings. The question is whether or not earnings over at least the next twelve months can increase enough to ensure that stocks remain reasonably priced.

Visibility on future earnings is always murky, but with Trump at the helm with big ideas and a Republican led Congress chomping at the bit for tax reform, trade reform, industry deregulation, and infrastructure spending stimulus, it's murkier than ever deducing results for potential winners and losers.

Change, for good or bad, is around the corner, but it's too early to read the tea leaves. One statistic that investors closed out the quarter on a happy note with was consumer confidence surveys that showed a great deal of optimism, at least as compared to the dark days of the Great Recession. One such survey, the University of Michigan Consumer Confidence Survey, comes out monthly and questions about 500 individuals about their personal finances, business conditions, and future buying plans.

Consumer Confidence

University of Michigan survey shows optimism



The surveys indicate that consumer confidence is at high levels, though with optimism heavily skewed to Republicans. Americans overall expect the economy to grow with the inflation rate staying under 3% for the next five years. It's not surprising that 87% of Republicans expect the economy to continue to grow over the next five years, while only 22% of Democrats believe that to be the case. Overall, though, people are hopeful while also feeling uncertainty due to intense government partisanship. The country is optimistic, and optimistic consumers makes for good business, but we need to keep in mind that consumer confidence is sometimes considered a lagging indicator meaning that it reflects what was rather than how it is or will be. It is fair to say that consumer uncertainty may reappear if intense partisanship continues in Washington.

It's not just individuals that are feeling at ease; so too are the folks who scrutinize economic data for a living. The Federal Reserve was confident enough this March in the underlying strength of the economy to raise the short-term Federal Funds interest rate by .25% to the .75% -1.0% range. And it also conveyed the likelihood of two or even three additional increases before the year is over. It's important to get interest rates closer to their long-term average rates of about 5% for Fed Funds and 6% for the 10 year Treasury bond so that monetary policy can be effective again when the economy weakens again in the future.

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Predictions of when and how deep stocks will fall is naturally impossible to determine. As we have said time and time again, markets always overshoot in both directions. They fall way too far below as well as much higher than their underlying valuations would suggest. At the current moment in time we are cautiously optimistic that this bull has a little bit of life left in him because of the Administration and Congress's business friendly agenda.

Also, the previous administration left an economy that had already begun to turn the corner. Analysts have high expectations for 2017's first quarter earnings growth for the S&P 500 index. They expect 9% growth and if it comes to pass, that would be the first time the index has seen year over year growth in earnings for three consecutive quarters since the third quarter of 2014 through the first quarter of 2015. It would also mark the highest year over year earnings growth reported by the index since the fourth quarter of 2011.

We remain cautious though mostly due to the uncertainty of how trade policy will play out. We hope to get a bit more color on things over the next several months. In the meantime we have been careful to hold only those stocks that we think can best withstand a market correction. In the large cap arena that means companies that have very strong balance sheets with manageable debt levels; and companies that pay dividends with leeway to increase those dividends annually. We also like to see that companies have enough cash flow to eliminate the risk of having to cut or eliminate their dividends in tough economic times.

Additionally, we are increasing our allocations to small and mid size companies as we expect that they will have relatively better operating leverage in the face of tax reform policies. And we are also increasing allocations to international companies since we believe that fundamentals underlying international companies are stronger than their prices indicate.

S&P 500 Since 1926

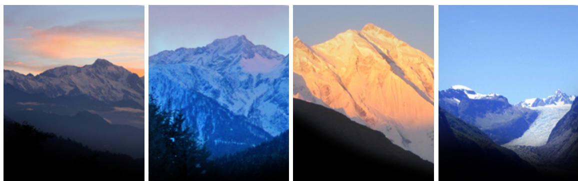
Positive Annual Returns have Outnumbered Negative Returns, 66 to 25

Despite the uncertainty around the current direction for stock prices, it's always nice to remember that stocks go up and stocks go down, but over the long haul they go up a lot more frequently than down. When you own quality companies, the downturns aren't as severe and the recoveries back up are smoother.

Have a happy Easter and Passover!

Sincerely,

Ellen P. Le, CFA
President



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THE RUNNING OF THE “BULL”

After the Civil War in the so-called Gilded Age, which was a time of tremendous industrial growth along with new investment and speculation, two gold speculators tried to corner the gold market. President Ulysses S. Grant, quite peeved when he learned of the scheme, ordered the release of $4 million in gold on Friday September 24th, 1869, which crashed the price of gold. A panic on Wall Street followed along with months of economic turmoil.

This stock market crash of 1869 inspired the cartoonist Thomas Nast to draw this cartoon for Harper’s Weekly magazine.

Dead bulls and a bear (and for some reason a fox and other cute animals) are shown in a heap in front of a roped-off Wall Street with a sign that says “This Street is closed for repairs” and a caption stating “What a fall was there, my countrymen!’

"WHAT A FALL WAS THERE, MY COUNTRYMEN!"

This cartoon is the first know written characterization of bulls and bears related to Wall Street.

The terms bull and bear are also thought to be derived form the way the animals behave - bulls thrust their horns UP in the air and bears swipe their paws DOWN.

And another interesting historical tidbit is that early on in our country’s bearskin trade, some brokers would sell skins they hadn’t yet received. They would speculate and hope that the future price would decline and they could buy them cheaper. That’s called speculative hedging!