ABUNDANCE
WEALTH COUNSELORS

Market Intelligence

April 2018

Index	March Return	1 Year
MSCI ACWI	-2.14%	14.85%
S&P 500	-2.54%	13.99%
MSCI EAFE	-1.80%	14.80%
Barclay's Aggregate Bond	0.36%	0.32%
Bloomberg Commodity	3.71%	-0.62%

The first quarter of 2018 seemed to have more market activity than all of 2017. Even with the volatility for the quarter, both the S&P 500 index and the Morningstar Moderate Target Risk benchmark lost less than 1%, returning -0.76% and -0.87% respectively.

As we move into the second quarter, we are faced with market volatility from concerns over a trade war with China, higher interest rates, and the potential for the government to regulate internet companies such as Facebook. This is a very different environment than the low volatility investors enjoyed during 2017.

Even with those headwinds, corporate earnings and the global economy continue to grow. Although at times it is difficult to separate the economy from the markets, we continue to see growing corporate earnings, which typically reward investors. As always, we will monitor current events to assess any longer-term impact to the economy. We acknowledge the current market environment is less amiable than investors have been accustomed to, but our longer-term outlook has not changed.

Price to Earnings Ratio

The price-earnings ratio (P/E) can be defined as a ratio for valuing a company or index that measures its current share price relative to its per-share earnings. With an outlook for strong corporate earnings in 2018 (the E in the equation), we have seen the P/E ratio for the overall market contract with the recent market correction.

According to the Wall Street Journal on April 4, 2018, S&P 500 firms are forecast to report profit growth of 17% in the first quarter of 2018 from a year earlier. With that estimate the P/E ratio for 2018 is approximately 16.5, down from over 18 at the end of 2017. This is in line with the average P/E of 16.87 from 1960 to 2017 as shown in the chart below from First Trust. Therefore, if corporate earnings match expectations this year, we do not believe the market is overvalued at this time.

Trend Towards Lower Fees

One positive that has emerged out of the confusion over the Fiduciary Rule is lower investment management fees. The rule was passed during the Obama Administration but has yet to be enacted and may never be fully implemented. The main focus of the rule was to elevate all financial advisors who work with retirement plans to the level of a fiduciary.

Another focus was to provide more transparency on how fees are charged to retirement plans. Although the rule has not been implemented, we have seen several investment management firms we utilize lower their fees. The net result is lower fees for our clients, and as we were already working in a fiduciary capacity, we believe the rule has provided benefits to all investors.

A Perspective on the S&P 500 Index's P/E Ratio

Historical S&P 500 Index P/E Ratios and Total Returns

Period	Average P/E	Average Annual Total Return
1960-1969	17.75	7.81%
1970-1979	12.80	5.87%
1980-1989	12.19	17.54%
1990-1999	21.43	18.16%
2000-2009	19.80	-0.95%
2010-2017 (12/19)	17.35	14.00%
1960-2017 (12/19)	16.87	10.06%

Source: Bloomberg. Data is through 12/19/17. Past performance is no guarantee of future results.

View from the Observation Deck

1. The current bull market in stocks, which commenced in March 2009, has lasted more than eight years and nine months. It is the second-longest bull market ever, according to Bespoke Investment Group.
2. Considering the duration of this bull market, it seems only natural that investors might question how much longer it can run and/or whether or not valuation levels have become too rich at current levels.
3. Brian Wesbury, Chief Economist at First Trust Advisors L.P., just released (12/18/17) his forecast calling for the S&P 500 Index to reach 3,100 by the end of 2018, up 15.70% from the index's close of 2,679.25 on 12/20/17. Wesbury's projection represents a near-term perspective on the stock market.
4. In the table above, the line highlighted in yellow shows the S&P 500 Index's average price-to-earnings (P/E) ratio and average annual total return since the start of 1960. It represents a long-term perspective on the stock market.
5. One of the key takeaways is the 10.06% average gain. It is consistent with the index's average annual total return of 10.04% from 1926-2016, according to Ibbotson & Associates/Morningstar.
6. We have noted on many occasions that we believe corporate earnings determine the direction of stock prices over time. As of today, Bloomberg's consensus estimated earnings growth rates on the S&P 500 Index for 2018 and 2019 are 10.25% and 10.29%, respectively.
7. As of today, the trailing 12-month P/E ratio on the S&P 500 Index is 22.58, well above the 16.87 average P/E since the start of 1960. The estimated P/E ratios for year-end 2018 and 2019, however, are 18.22 and 16.52, respectively, according to Bloomberg. The 16.52 projected P/E for 2019 is in line with the 16.87 average P/E since 1960.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance.

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