

Going with the Flow – For Now. . .



Highlights:

- Markets trend higher with stocks up 4% and bonds inching small gains
- Significant portfolio changes
- Socially Responsible Investing gains
- Back to teaching at Ave Maria University

February 14, 2017

The financial markets have begun the year on a favorable note, with stocks up nicely and even bonds have chipped in a small gain.

The stock market has gained 4% so far this year. The normal seasonal bullish bias, fund inflows, and favorable corporate earnings have been factors leading to stocks hitting all-time new highs.

With the S&P500 fourth quarter earnings, we can see that they have risen by 5%. Looking forward, Argus expects earnings to grow by 5%, largely due to the energy sector's improved outlook. While corporate earnings are supportive of higher prices, sentiment is flashing a warning sign.

Potential tax changes are in the works. The topics in play are cutting the corporate tax rate from 35% to maybe 20%, eliminating the tax deduction for interest expense and the implementation

of a border tax. we are calculating the impact to our core holdings as they report earnings. The earnings for CVS, which is a new holding, for 2016 would have been 21% higher, while NextEra Energy would have experienced 12% earnings since they have more debt.

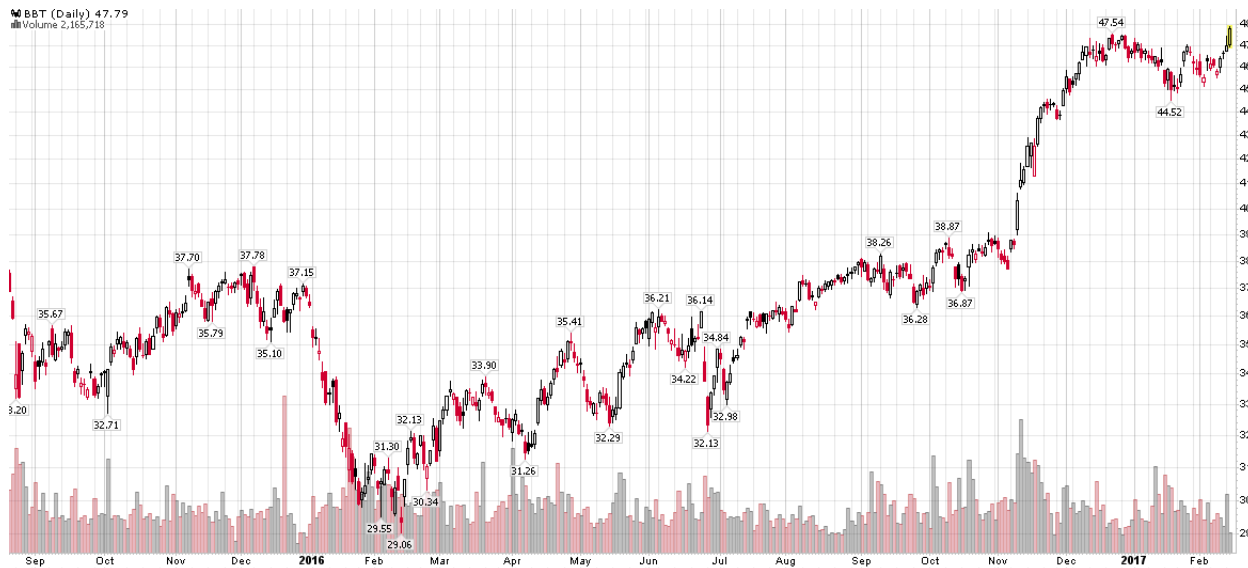
The bond market has a ton of interesting issues. Generally, higher growth and moderately higher inflation should lead to higher yields. If only it were that simple; the elimination of interest deductions would decrease the supply of corporate bonds. Also, a massively larger federal deficit could push rates higher as a result of tax cuts. Our best guess is that if the border tax is implemented, it will lower economic growth and the 10-year Treasury revisits 2%. Conversely, if the border tax gets deported and not implemented, the 10-year goes to 3% or more on stronger growth and larger deficits.

Significant Portfolio Changes

Recently, we added CVS Health. CVS is an out of favor company selling at a Price to Earnings of only 13. Investors gave up on CVS when they lost a pharmacy benefits manager (PBM) contract.



We sold BB&T Bank stock. The stock had done well, rising 27% over the past three months. Recently, however, a quiet announcement was made regarding weak, internal controls around failures to follow banking regulation over money laundering compliance. This suggests weak governance, which is a key attribute of our analysis.



We have also taken a small position in Gold via the GLD ETF. This position is a hedge against financial market collapse, so hopefully you will lose (a very minor amount) money on this position.

Back to Teaching FIN350 at Ave Maria University

Andy recently began his second semester as an adjunct professor at Ave Maria University. Let's see if you're as up to date on the markets as his students. Exam 1, Question 1:

1. Award: 1.45 points Problems? [Adjust credit](#) for all students.

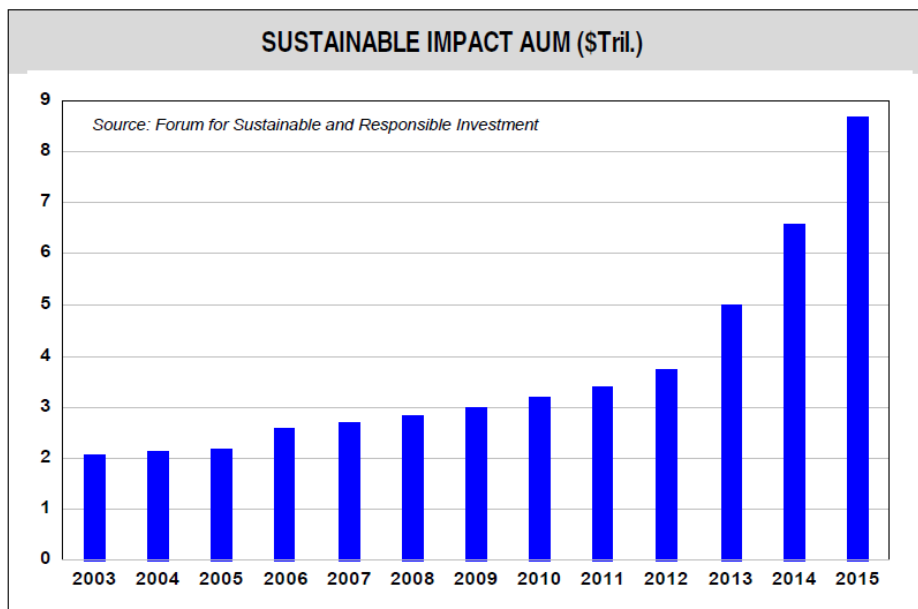
Which school won the 2015 CFA Global Research Challenge?

- Harvard
- Wharton/ Univ. of Pennsylvania
- New York University
- Canisius College

It is no accident that Canisius won where Andy was graduated in 1986.

Argus Daily Spotlight: Sustainable Impact Investing

One of our roles at Andrew Hill Investment Advisors, Inc. is to be constantly mindful of the social and environmental impact as well as the governance issues of the securities we invest in. What we practice is often referred to as Socially Responsible Investing (SRI).



Argus reported this week that SRI funds have grown to \$8.7 trillion in 2015, up from \$2.1 trillion in 2003. Over the last few decades, SRI has migrated from focusing on no alcohol, no tobacco and no guns (things companies shouldn't do) to focusing on "major initiatives such as climate change, gender equality, agricultural sustainability and the war on global poverty," or things companies *should* do.

We will continue to be on the forefront of Socially Responsible Investing and will choose the equities that best serve your portfolios. Please feel free to call us if you would like to further discuss SRI.



Andrew D.W. Hill, CFA
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Managing Director and Co-Founder

Disclosures

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