

POTTLE FINANCIAL SERVICES, INC.

February 8, 2018

2018

INSIDE THIS ISSUE

"Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."
Warren Buffett

2018 should bring higher equity prices and higher 10-year Treasury bond yields. But 2018 will also be a volatile year as the real battle between buying overpriced equities or underpriced bonds gears up. We believe the answer should be some of each with intentional portfolio changes throughout the year.

This past week was an example of the volatility we will see this year. It was a bad week but not a week to panic (we did, however, check to be sure - *Microsoft did not drop 30 points!*). We will have a number of good weeks and bad weeks in 2018.

ECONOMY

By economy we mean inflation, GDP, wages, number of people employed, growth in manufacturing, number of houses being built, and more. In financial circles we are inundated with numbers.

None of the above will go out of bounds in 2018. In general, the economy is getting better; your focus in 2018 should be the big picture, and on interest rates which we will discuss in the "Bonds" section.

EQUITIES

The most important aspects for stocks and stock funds are revenue or sales growth, earnings growth, and, most importantly, free cash flow. What is **free cash flow**? This is simply the amount of cash a company generates each quarter. If a company is increasing cash quarter over quarter, then it is likely a pretty solid company.

There are many other parameters but these above should give us a really good, quick look at the value of a company.

We believe stock prices can continue to increase this year and we are currently investing with this in mind. Prices won't continue to increase forever. Eventually, the increases will slow and we will move more towards fixed income allocations.

The stock markets have been ugly for the past 7-10 days and we may be having one of the 10% corrections that occur in normal years. We are watching this closely and altering portfolios as needed. Much of this has been caused by the rapid rise in interest rates and the potential for Congress to add to our national debt. However, we still believe this is a correction that will be made up in the weeks and months to come and that it is not the "big one".

We will send another note about the positive and negative thoughts on the equities markets in a few days. This should give you a little more food for thought.

BONDS

Bonds are the proverbial fly in the ointment. For 30 years, bond yields (interest rates) have been declining. Now, it looks like they are starting to increase. When bond yields rise we start thinking we might want to own them rather than stocks; they are not as risky.

The yields will have to go higher, but the tug of war has begun. Watch the 10-year Treasury bond yield. It has increased from 2.5% to 2.8% already this year. If we get to 3.25%-3.50%, we could reach a large inflection point.

EARNINGS FOR 2017

Indexes:

S&P 500 Index	22%
MSCI World Index	20%
MSCI Emerging Markets	34%
iShares Aggregate Bond Index	3.54%
High Yield Bond	6.32%

Our Representative Funds:

Edgewood: EDGIX	34.92%
Parnassus Endeavor: PARNX	20.02%
Goldman GQG: GSIMX	31.76%
GS Intern. Small: GICIX	33.02%
Gugg. Macro Opp.: GIOIX	5.30%
Fidelity Capital Income: FAGIX	11.65%

Our **Representative Funds** are mutual funds we like to use. We use other funds as well, which have both better and worse returns than the numbers above.

ESTIMATES FOR 2018

GDP Growth	3.0%	Unemployment Rate	4.0%
Inflation	2.0%	S&P 500	13.0%
10-year Treasury Bond	3.0%		

Thank you for investing through Pottle Financial Services, Inc.

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