
October 20, 2017

To Our Clients, Partners, and Friends –

You have questions. You're wondering how it could be possible that the S&P 500, the Nasdaq 100, and the Dow Jones Industrial Average could be climbing to record highs day after day, week after week.

How is it that stocks can keep breaking through to new heights with so much domestic and geopolitical turmoil? The country feels like it's being torn apart; half an hour of cable news delivers enough psychological trauma for a whole year. Still, 3 out of 4 investors are either neutral or bullish on stocks¹.

Economically speaking, there are positive swells on the horizon. One example is household formation, or the "move-out-of-your-parents-basement" index. It has been well below its 40-year average since 2007². As millennials age into their 30s and retire their student debt, a projected spike over the next several years should provide a boon for construction. Easing lending standards will be fuel for this fire.

But this trend, like many others, will show its effects in the *long-term*. Aren't we due for a market correction in the short-term?

When asked if stocks are overvalued, Nobel laureate Robert Shiller supplies a simple answer: yes. His cyclically adjusted price-to-earnings ratio compares the current value of equities to inflation-adjusted earnings over the past 10 years. It is currently above 31, a value not seen except for the years surrounding 1929 and 2000³ (hint: the beginnings of cyclical market downturns).

Unperturbed, if not defiant, most economists are increasing their forecasts for global economic growth in 2018⁴. Is this because of solid earnings reports? Strong labor markets? The rise of the "global middle class"? Perhaps. Or, perhaps we are asking the wrong questions.

A long-running Gallup poll asks, "how much trust and confidence do you have in men and women in this country who either hold or are running for public office?" Over 50% of responses this year were in the category of 'Not Very Much' or 'None at All'. 35 years ago, the same survey showed that only 32% of Americans felt this way⁵. This is not a recent phenomenon, as it has been increasing ever since.

¹ Survey, "Optimism is Above Its Historical Average", *American Association of Individual Investors*, October 12 2017

² Charles Gross, "Fourth Quarter Housing Outlook", *Morningstar Research Highlights*, October 13 2017

³ Alex Rosenberg, "Shiller: High Valuations Make the Market Dangerous", *CNBC Trading Nation*, April 27 2017

⁴ Liz Ann Sonders, "Preparing for the Latter Innings", *Schwab Market Perspective*, October 13 2017

⁵ Poll, "Trust in Government", *Gallup News*, September 10 2017

The FBI, the Senate, the House of Representatives, the mainstream news media, the Federal Reserve, the President, and even the U.S. Constitution are becoming more politicized and mistrusted. These institutions were once thought of as non-partisan—the pillars upon which democracy was built. Videos of their protest flood the internet, little shoebox dioramas of unbridled rage. So where *do* we place our trust and confidence in today's world?

In Omaha, an Oracle smiles. “Being short America has been a loser’s game...and it will continue to be a loser’s game,” said Warren Buffet in a recent speech. Buffet understands that our faith in the conventions of traditional American institutions isn’t fading away, but being transformed. Our beliefs have shifted, and we have selected a new Pantheon—the pillars upon which *capitalism* was built.

Here are a handful of the stocks that recently made all-time highs, helping drive the major U.S. indexes:

Johnson & Johnson	Google	Amazon
McDonald’s	Visa	Berkshire Hathaway
Apple	Microsoft	Bank of America

These companies are not new, and in many cases, are not selling a new product or service. Quite the contrary—they are ingrained into American culture and our everyday lives. Come what may in Washington, Americans have decided that these entities will be responsible for shaping the future.

As each product becomes more indispensable, our trust in these institutions is bolstered. Investors then ask themselves: why pick one company when I can invest in all of them? This blind faith then leads to a self-fulfilling prophecy—larger companies draw in more invested dollars from index funds than their counterparts precisely because of their market capitalization. The result is a company like Apple.

Apple is the first publicly traded company to be worth \$800 billion. Some perspective on that number⁶:

- 1) Apple’s value exceeds the combined market cap of the 102 smallest companies in the S&P 500
- 2) Apple’s market cap is more than 220 times larger than Ryder System, Inc., a transportation logistics company that is the smallest member in the S&P 500 with a market cap of \$3.6 billion
- 3) Apple’s value is more than the 2015 gross domestic product of 183 of the 199 countries tracked by the World Bank—it’s approximately the same size as the combined GDPs of Iran and Austria

The Mega-Cap Corporation is the new Sovereign. But it is also *so much more*. Technology, in particular, is approaching deification. Bad comparison? Apple’s user base now rivals all of the world’s major religions, combined. A recent study found that we touch our phones an average of 2,617 times per day⁷. Doubling this number are the more devout users (top 10%). That sure sounds like ritualistic devotion.

⁶ Chris Dietrich, “Apple’s \$800 Billion in Market Cap Is Now Bigger Than...”, *The Wall Street Journal*, May 9 2017

⁷ Patrick Nelson, “We Touch Our Phones 2,617 Times A Day”, *Network World*, July 7 2016

Eager students consult the high priest Google, who has all the answers. Families pray to Amazon for a plentiful harvest. Facebook, a temple in “The Cloud” festooned with our own personal experiences and beliefs, is worshiped by young and old. And the path ahead is entrusted to Uber, the shepherd. Let the Old Gods bellow and rage.

Shareholders are waking up to the idea that, despite how their respective governments have failed them, the universal “profit motive” has not let them down. The new Gods—Cook, Bezos, Zuckerberg, Musk, Bogle, Page—have shown themselves to be more worthy of investor adulation than Congress or the White House. And we’re carrying their altars in our pockets.

But as we all know; corporate leaders are not Gods and companies do not deserve worship. While setting record highs, stocks are also setting record lows in volatility. The old adage of “buy on the dips” cannot be employed if there are no dips. Many view this lack of volatility and steady march higher as artificial—caused by years of Central Bank intervention. Markets are quiet...perhaps too quiet.

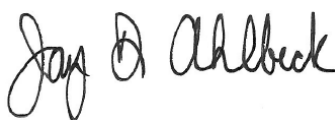
We hope you enjoyed our comments. If you have any questions, please do not hesitate to contact us. We welcome the opportunity to discuss our thoughts in greater detail. Thank you for your continued confidence in Planning Capital Management.

Sincerely,



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