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Sandpiper Capital

Gleanings

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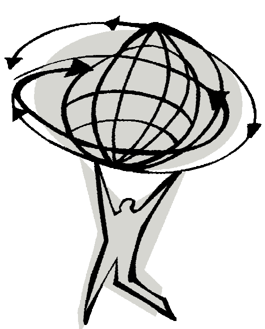


Great expectations…

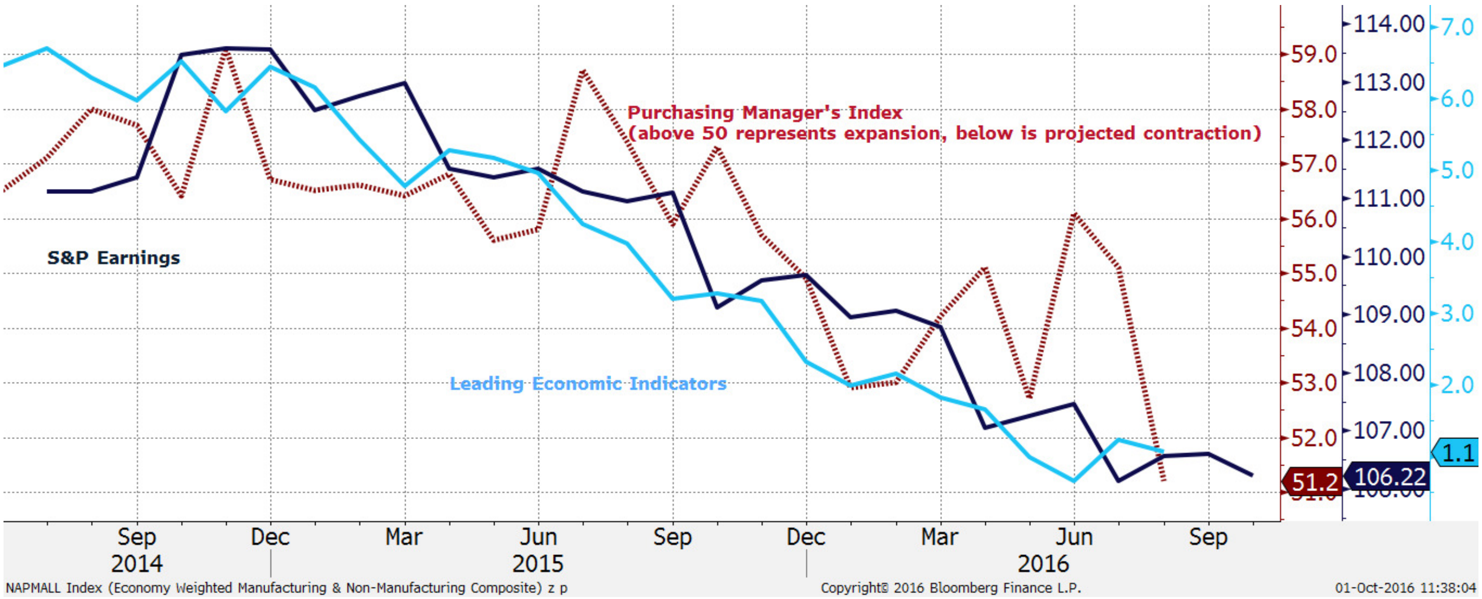
The main conflict of interest that exists between Wall Street and Main Street is that Wall Street wants Main Street to buy securities. The financial markets exist as an efficient method of financing business. The most efficient, that is; the least costly means of doing that, is to keep public demand for securities high even when securities are not, perhaps, that attractive. You need to keep the buying public coming into the store by effective promotions and advertising if you want to make money. Hence analyst's published expectations for next year's S&P 500 earnings. The sale price Wall Street is advertising for the stock market is attractive because their analysts, in their collective wisdom, will tell you that you are going to see $132 in earnings on that index in the next year. They're sure... The $106 earnings for this year is just a temporary problem that has to do with oil prices and the dollar and other stuff. The important information of which a consumer of financial products needs to be aware is that, just like Joe's Crab Shack has the big sign on their storefront that says "Free Crabs Tomorrow", next year is always next year. Since 1989, as far back as my records go, the average forecast increase for the next year's S&P earnings has been 33%. The actual average increase was less than 6%. For none of those years was earnings projected to be down and, as you know, sometimes S&P earnings are down precipitously. As a wary buyer of financial products for my clients, I have to look past Wall Streets "guidance" and make my own best estimate of the relative attractiveness of any prospective purchase. You don't see me putting a lot of money in stocks because I know that when buyers discover that they've been sold a bill of goods they often show their disappointment.

Market Returns Annually and Ten Years Ending 09/30/2016

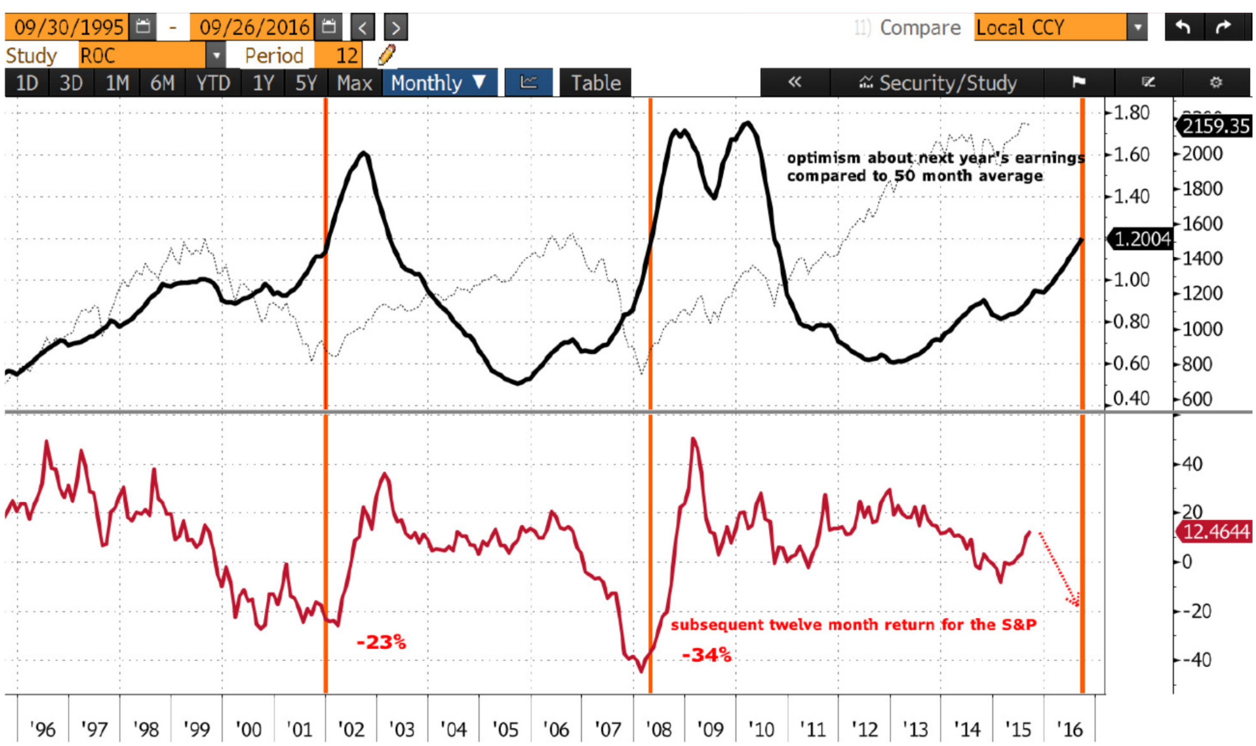
Index	2014	2015	10 Yrs	YTD
S&P 500	13.7	1.4	**7.2%**	**7.8%**
ML 1-5 yr Gov't/Corp	1.5	1.1	**3.3%**	**3.6%**
EAFE (Dev Fgn Mkts)	-4.9	-.8	**1.8%**	**1.7%**
Emerging Markets	-2.1	-14.6	**4.3%**	**16.3%**

The stock market has continued to rise over the last few years in spite of falling earnings. (See the chart on the previous page.) While this is not unprecedented in a market where inflation and interest rates are low, you will note the periodic market drops on disappointing data points.

Economic indicators (chart just below) have been forecasting a slower economy since 2014. The current readings show that trend continuing in 2016. Contracting S&P earnings look to be a function of a stalling economy.



I've graphed Bloomberg's tally of past estimates on the black line in the chart below as a trendline that compares each year's projected % increase with the average projected increase. When the line is going up, it means that analysts are more optimistic than usual. Except during recessions that much optimism is usually met with disappointment. That disappointment is reflected in the red line, which is the S&P's return for the year after the estimates are published.



Tom Lukic