Argent Capital Management LLC

RE: **INVESTMENT COMMENTARY FOR PERIOD ENDING SEPTEMBER 30, 2017**

FROM: **ARGENT CAPITAL MANAGEMENT**

DATE: **OCTOBER 17, 2017**

"Yesterday is history, tomorrow is a mystery, but today is a gift. That is why it is called the present."

-Oogway the Tortoise, Kung Fu Panda

There are not many years when after nine months one can survey the landscape of investment alternatives and see nothing but positive returns. Since good times never last on Wall Street – fortunately, neither do the bad times – it is worth taking a moment to enjoy the fact all three Argent strategies have had strong year-to-date performance. Argent Large Cap Growth is up 18.0 percent, Dividend Select is up 8.4 percent and Small Cap Core is up 12.6 percent. Even more surprising has been the lack of volatility. Year-to-date, the S&P 500 Index has moved one percent or more in either direction on only eight occasions. The last time we had comparable markets was 1972.

Why such positive trends? There are many explanations, but a few stand out. First, corporate earnings have been strong. The average S&P 500 company's earnings gained over 10 percent in the first two quarters, and early indications for third quarter earnings are favorable. Second, despite three Fed increases in short-term interest rates since December, intermediate to longer-term interest rates have been flat to falling, resulting in an extremely low interest rate environment. Third, it is not just a U.S. story - a synchronized global recovery seems to be taking shape. Corporate earnings in most foreign markets are strong, particularly in Japan and numerous economies in Southeast Asia. Fourth, despite edging up slightly in September, the dollar has been weak this year against a basket of foreign currencies. A weak dollar has both positive and negative effects, but a big positive is that as the dollar weakens, earnings of multi-national U.S. companies are enhanced. Fifth, energy companies have gotten a reprieve from falling oil prices thanks to unexpectedly strong demand and signs of ebbing U.S. oil production.

"Hi. My name is Barry, and I check my E-mail two to three hundred times a day."

While it is fun to be spoiled (and the S&P 500 Index has been up in 17 of the last 18 months) there is no question that all is not rosey. Hurricanes Harvey, Irma and Maria laid waste to Houston, parts of Florida, and much of the Carribean. That will negatively impact Gross Domestic Product (GDP) growth the next few quarters, although the rebuilding effort will likely help the economy thereafter. In addition, the highly partisan politics in Washington, D.C. have led to little legislative change, and tax reform, which seemed a given just a few quarters ago, seems increasingly unlikely to occur before 2018. Finally, geo-political concerns over North Korea, Syria, Iran and Venezuela are not easily resolved, and trade tensions with our foreign partners are high. It is enough to make one avoid the morning papers.

Andy Grove, former CEO of Intel, famously said that, "Only the paranoid survive." In Wall Street lingo, a similar axiom is that investment markets have to climb a *wall of worry*. Given the negatives mentioned, along with many others, we find clients expressing a lot of concern about the potential for further market success. We view their mental state as *skeptical*, which we find encouraging, as people who are skeptical are not surprised by bad news. On the other hand, people who are optimitic about the future can be easily disappointed when news is worse than expected. Thus, while it seems counterintuitive, markets seem to do better when investors have low expectations.

"It was Socrates, wasn't it, who said, 'The unexamined life is not worth living'?"

One of the bigger surprises this year is that interest rates have stayed so low. As mentioned, despite three increases in short-term interest rates by the Fed since December, intermediate - to longer-term interest rates are flat to down, so the spread between long-term and short-term interest rates has tightened. Overall, interest rates have stayed lower for longer than we would have guessed, but we still see a trend toward slightly higher rates. Slightly higher rates would probably be good for the economy – this would indicate that the Fed has confidence in the strength of the economy. In addition, higher interest rates would allow savers to earn a more reasonable return on their conservative investments.

As we move into the fourth quarter we remain cautiously optimistic. We do believe, however, we are in a low return environment where investors should expect more modest returns from stock performance. Nonetheless, absent a geo-polictical event, we see little reason that stock markets cannot go higher.

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