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Investment Management

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	1st Qtr.	12-Mo
Dow	+5.18%	+19.84%
S & P	+6.06%	+17.12%
NASDAQ	+ 10.12%	+22.91%
10-Yr Treasury		2.39%
10-Yr Municipals		2.65%
Fed Funds Rate		0.79%
Gold		$1,249
Silver		$18.27

Inside this issue:

"Never spend your money before you have it."
Thomas Jefferson

Built Upon Debt

Many of us have had to learn the hard way, possibly even our new President, that too much debt financing is harmful to our economic health. Personally, corporately, municipally, statewide, or nationally, we live in a debt—based system. If you are one of the blessed ones, you have been able to either work your way out of debt or someone in your generational line did.

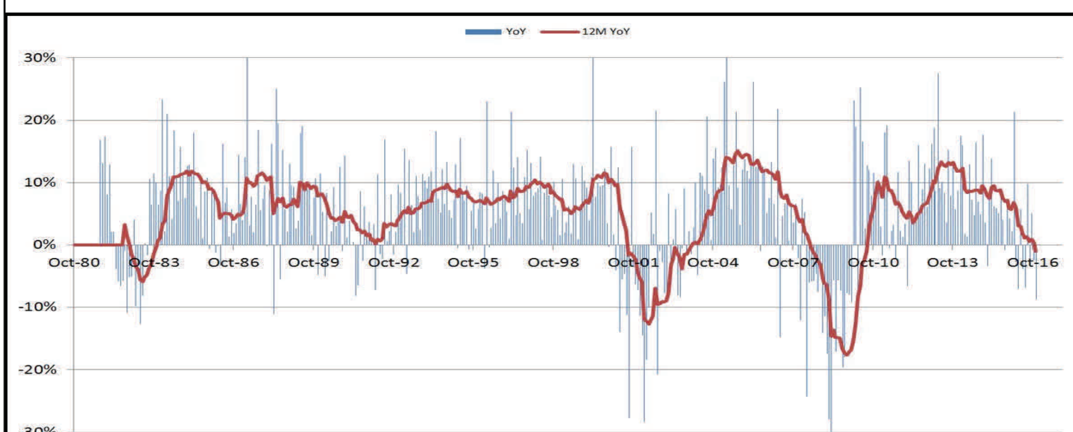
President Trump had his experiences with debt. Beginning in 1991, Trump Taj Mahal filed for bankruptcy and was followed by several other Trump casinos, all guilty of using excess leverage. While we have been calling attention to the obvious, the not-so-obvious is supply and demand eventually wins out. But our Fed has all the ink and paper they need to supply the debt necessary to keep this scheme going. So, when we have a bankruptcy like Trump's, or a failure of a high flyer like the Bernard Madoff Ponzi king, it is not that the Fed doesn't have more funds. It is the fact that there is a change in supply/demand and the company or municipality or individual has only debt and not enough liquidity to meet the demand.

A build up in the late 1990s of casinos plagued Trump. Not enough business combined with leverage and over-supply left the casinos bleeding chips. A complete lack of confidence led Bernie Madoff to jail, not for lying or stealing, but for not predicting the amount of liquidity he would need during the 2008 crisis. Remember, Madoff was telling his investors they were making sometimes as much as 20% a year when actually their money wasn't being invested at all. So when the 2008 crisis hit — even Madoff couldn't lie his way out of handcuffs.

What are we saying:

1) We are at a moment in time where there is significant leverage in our system, whether government, financial markets, banking, corporate or personal balance sheets.

2) You can make personal choices that will assist you in making your way through the maze with limited negative impact.



3) Diversify your investments and look for alternatives that do not take significant risks which are too readily available.

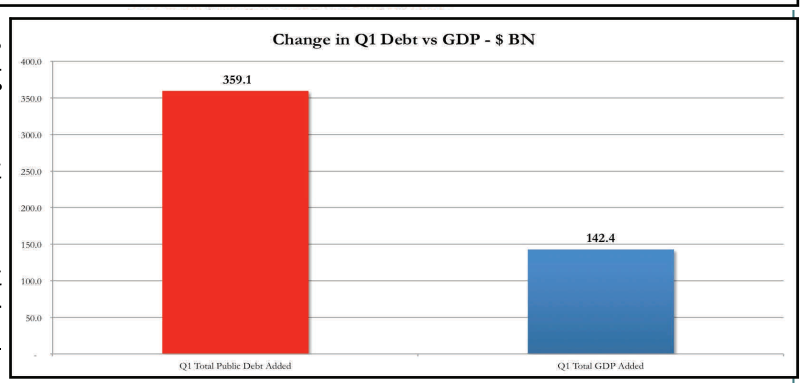
4) Prepare for a time when resources are restricted and realize you can make a positive difference instead of contributing to the problem.

Confidence

The consumer, strictly by habit or reflex, is still spending money. We read that the economy is growing, inflation is low, and the Federal Reserve is so confident they are raising interest rates. Adding to that confidence is another building brick from our President. Trump knows business. He knows what excites businessmen (lower taxes, reduced competition, reduced regulations). Although the peoples' candidate, he is not off to the best start getting Congress to work with him to remove Obamacare, but he is learning on the job. This is not solely his fault. Republicans in Congress don't seem to understand these are the days of Brexit and swamp draining. Elected ones, — be stubborn at your own peril.

Our EKG for Trump watch is the equity market. The S&P is up over 14% since the election. Combining newly elected euphoria with positive expectations of his cabinet selections and lower taxes, the market is in approval mode demonstrating "hope."

We also need to remember, the Fed has increased interest rates 0.50% since their first rate hike in December, and they are promising more. Even more ominous is the Fed talk by one of its bank presidents. They are contemplating reducing their balance sheet. This would be a major change of supply to the bond market, whether mortgages or Treasuries. This new supply will have the same impact as increasing interest rates.



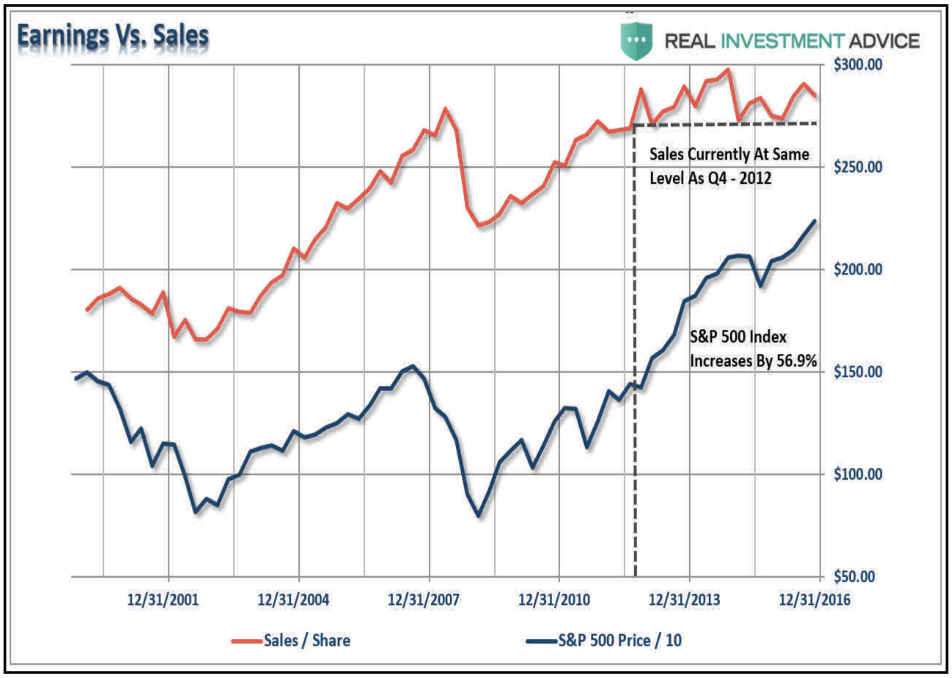
It now takes a staggering $2.52 in new debt to increase GDP by 1%.

Higher interest rates and a stronger dollar is not necessarily what Trump the trade negotiator has in mind. He knows more trade is facilitated by a weaker dollar and this could bring him into direct opposition with the Fed's plan of reducing their huge balance sheet by selling securities into an already skittish bond market.

Donald would like to use that same credit market for some of his infrastructure projects. But right now, the political focus is on Trump's tax plans and possibly the budget ceiling the Republican's let Obama skip right through in his last 2 years. Will Democrats allow the new President to get such a pass?

Much of the future success of the markets are riding on Trump's coattails. We do like the wrecking ball approach. There is much that can be torn down in the way of permanent government that should save us both money and time. Our job is to get our representatives involved. They can either be helpful to what the voters said in November, or they can be part of the collateral damage.

Trump's nationalism should also translate well with the economy. While companies have been very focused on reducing their costs by hiring overseas — we have been complicit in allowing this to take place. We did not complain while these trade deals took place with the approval of our Senators — the very same ones being wined and dined by corporations. This mixture of government and corporate has gotten out of hand. A good first step is Trump's cabinet's 5 year, non-lobby agreement. Any Senator, Congressman or cabinet member should be willing to serve their country without the added incentive of going to work for the very corporation they were in position to vet for the nation.

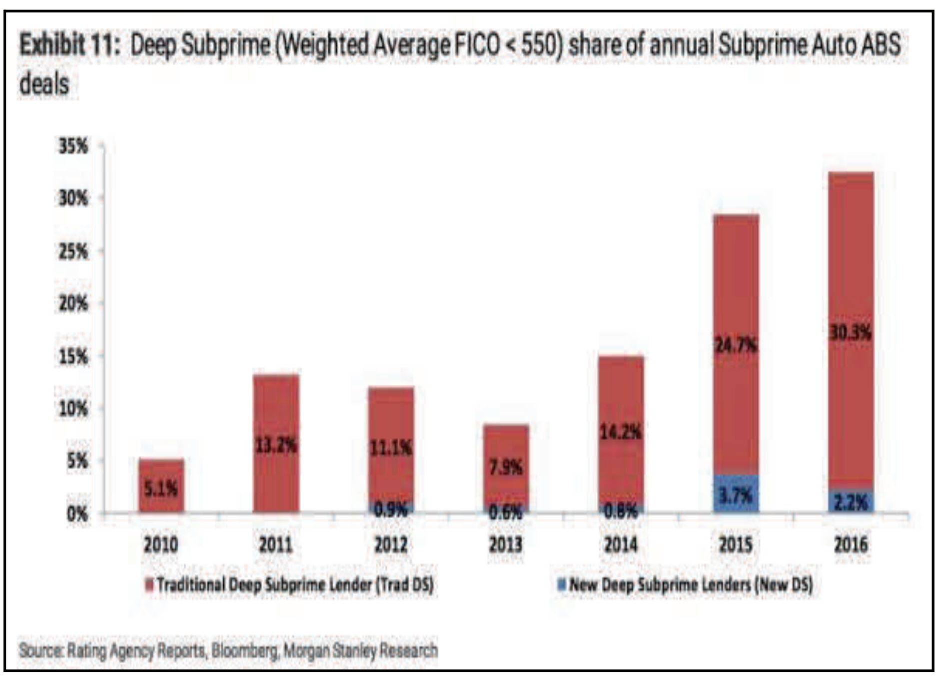


So we do find ourselves in this unusual situation. We think it feels like a reprieve. But, what do you do when you have a reprieve? You have the encouragement to right some of the wrongs. Congress is being given this current opportunity. They have an opening to fix the healthcare system, reduce spending, and change the graft and corruption system that is currently in place in our government.

And that seems to be the message the stock market is currently dancing to. We do see that most asset values are on the high side. Equities have a price/earnings ratio in the mid 20s, and earnings are not growing at a pace that would warrant more than a 6% increase in the indexes, all things being equal.

As you can see by the chart above, the stock index is decidedly increasing over actual sales.

Also a debt warning, the sub-prime auto loan business is way out of control. While this is not as systemic as the mortgage system, the auto industry has literally driven the economy over the past several years and weakness in that area could snowball into something much bigger.



So which boat is Captain Trump steering? Only time will tell.

America's Cup Racer

"MAKE AMERICAN GREAT AGAIN"

or.... The RMS Titanic

"TOO BIG TO FAIL"

We are of the opinion that God has given us a reprieve over the next four years and that we should use it wisely.

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***Herbert R. Smith & Company** has been providing investment advice to institutional and wealth-management clients for over 45 years. Our expertise in managing assets has assisted our clients in meeting their financial goals without moving beyond reasonable risk guidelines. Our mission statement is:*

To provide professional investment advisory services helping clients accumulate and maintain financial wealth through conservative long-term investment strategies.

Please call Gloria Bohannon or John Ford if you have any questions or concerns: 940-723-5565 o