ABL Money Management Update

Alan B. Lancz & Associates, Inc.   Registered Investment Advisor
2400 N. Reynolds Rd. / Toledo, Ohio 43615 / 419-536-5200 / Fax 419-536-5401 / E-mail: abl@ablonline.com

1st Quarter 2017 – CHALLENGES AHEAD

At the end of the 4th quarter we discussed the significant divergence between the winners and losers in this economic climate. Investors so adamant in regards to passive investing are finding old heroes tumbling to new lows at the same time some companies cannot do anything wrong. In our 4th quarter report, we listed a group of stocks investors loved as recently as one year ago that had huge losses in 2016. From Fitbit, First Solar, Shake Shack, Gilead and Under Armor, all these big 2016 losers continued their plunge with 2017 YTD losses between 10-30%. Teflon coated Tesla was the only company we mentioned that dramatically reversed 2016 losses this year. At the same time, we experienced strong outperformance in our sister company's, LanczGlobal, *Favorites for 2017* and continue to selectively buy into a market that appears fully valued. Our focus in the international arena has already begun to pay off, despite the fact it was a long-term move. The broader international market indices, both developed as well as emerging, outpaced the S&P 500 by 53% and 111% respectively for the first quarter. This environment is so much different than when we warned about excessive valuations in all classes of stock and real estate in the summer of 2007. Alan B. Lancz and Associates, Inc. is still finding more than a handful of solid risk-to-reward opportunities that typically are not readily available at current valuations.

There was only one time in the past 35 years that we started getting cautious at current valuation levels, when reducing risk did not pay off. That time was in the latter half of the 1990's when stocks continued their torrid 20% annual gains without regard to the lofty valuations each year, especially in technology. At other times, we were either rewarded for getting more defensive with a drop in valuations (1987, 2000, 2007) or still participated in the advance by finding select lower valuation opportunities that were still available in the face of a broader market that was getting overpriced. We are in this environment currently, and experienced this during other less material, or more sector based, rotational corrections.

Beyond the geopolitical concerns and the ceiling that higher interest rates could provide to a rising economic growth scenario, the biggest hurdle investors face are the delays with the Trump administration implementing tax reform, deregulation, and an infrastructure program. Should any of these three main economic agendas not progress, current valuations will look excessive, especially compared to the anemic economic growth that would likely continue. Any delay past this summer would push buyers to the sidelines and increase volatility.

In the interim, it is good that select bargains with favorable risk-to-reward are still found on a global basis, so like other times like these, we can still participate in this market while not taking the inherent risk in many popular areas. The U.S. stock market's post-election advance has stalled. Investors should expect further downward pressure if President Trump fails to progress with the implementation of his agenda. This has rallied bonds back to the 2.33% level from 2.60% on 10 year Treasuries over the past several weeks. For those investors that did not shorten maturities or lock-in profits last year in long-term Treasuries, you are having another opportunity to do so.

MARKET UPDATE | 1ST QUARTER 2017

EQUITY INDICES	1ST QUARTER	1-YR (3/31/17)
S & P 500	5.5%	14.7%
D.J.I.A.	4.6%	16.8%
NASDAQ	9.8%	21.4%
Russell 2000	2.5%	26.2%
International Stocks (*MSCI* EAFE NR USD)	7.3%	11.7%
Emerging Mkt Stocks (*MSCI EM PR USD*)	11.6%	20.4%
China (CSI 300)	10.9%	5.1%
Germany (DAX)	7.3%	23.6%
Japan (NIKKEI 225)	-1.1%	12.8%
India (SENSEX)	12.5%	20.2%

*Global Indices returns exclude dividends and are in local currency except where noted otherwise

U.S. EQUITY SECTORS	1ST QUARTER	1-YR (3/31/17)
S&P 500 Utilities	6.0%	8.2%
S&P 500 Telecom	2.7%	9.2%
S&P 500 Consumer Staples	5.5%	6.8%
S&P 500 Materials	7.4%	22.8%
S&P 500 Industrials	4.7%	18.7%
S&P 500 Energy	-6.5%	15.4%
S&P 500 Information Technology	12.5%	26.2%
S&P 500 Consumer Discretionary	8.1%	13.3%
S&P 500 Health Care	8.6%	11.5%
S&P 500 Financials	2.7%	32.0%

FIXED INCOME AND ALTERNATIVE INVESTMENTS BENCHMARKS	1ST QUARTER	1-YR (3/31/17)
Real Estate (*DJ US REIT*)	2.2%	2.3%
Interm-Term Bond (*Barclays Interm. Gov/Credit*)	0.9%	1.9%
High Yield Bond (*BofA/ML Hi Yld Mst II*)	2.3%	13.5%
Muni Bond (*Barclays 7 Yr Muni*)	1.1%	-0.3%
Short-Term Bond (*Barclays 1-3Yr Gov/Credit*)	0.5%	1.7%
Commodities (*Bloomberg Commodity*)	-2.3%	10.9%
Master Limited Partnerships (*S&P MLP*)	1.3%	30.0%

Sources: Morningstar, Yahoo, and Standard & Poor's. Performance is for 1st quarter and 12 months ending 3/31/16. Performance includes dividends, except where noted otherwise.