

# ABL Money Management Update

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## 3rd Quarter 2017

The sector rotation that we anticipated last quarter into both the underperforming energy and financial sectors materialized in earnest this summer. Combined with the “hot” technology sector, these three sectors led the way with only the consumer staples down for the quarter. On the tenth anniversary of our warnings of global overvaluations in both equities and real estate, our research team stressed that this was not another 2007 or 1999, as we continue to ride the wave of even the much-loved tech sector. We are not chasing the high flyers we bought years ago, and may take partial profits into strength this quarter.

In addition, we would not chase energy or even the small-to-mid cap stocks we emphasized this year due to their recent dramatic outperformance. For example,

into the first 3 days of October the Russell 2000 has surged 11.4% since August 21, 2017, compared to the S&P 500’s 4.3% gain over the same period.

It is always good to complete a quarter with a couple of premium takeover offers, and we were fortunate enough to have both **Calpine Corp. (CPN)** and **Calgon Carbide Corp. (CCC)** accept takeover offers not long after accumulating positions in both undervalued, low expectation companies. The fourth quarter may see more volatility, with the news of tax reform and interest rates being prominent factors beyond just typical quarterly earnings and guidance. Investors need to stay proactive and lower risk as valuations rise while still participating in this long-term bull market.

Liz Claman, anchor of Fox Business’ “*Countdown To The Closing Bell*” interviews Alan Lancz, President of Alan B. Lancz and Associates, Inc. and Director of Research at LanczGlobal.com, on new record highs in stocks and the opportunities in select energy and telecom now that recent speculative bargains, featured in *Barron’s* (June 26, 2017), have exceeded their buy limits.

*Live from Chicago (7/14/17)*



From *Forbes*, Aug. 20, 2017:

On Friday, the private equity firm Energy Capital Partners said it would acquire Calpine for \$5.6 billion, or \$15.25 a share — a nice premium over its current stock price of roughly \$12 a share. Persistently cheap natural gas has meant that many of its electric generators have been unable to cover their operating expenses and to turn a profit, losing collectively \$216 million in the last quarter.

From *BUSINESS WIRE*, Sept. 21, 2017:

Calgon Carbon Corporation ([CCC](#)) and Kuraray Co., Ltd. (TYO:3405) announced today that their respective Boards of Directors have unanimously approved, and the parties have entered into, a definitive merger agreement under which Kuraray will acquire Calgon Carbon for \$21.50 per share in cash, which equates to an equity value of approximately \$1.1 billion, and a transaction value in excess of \$1.3 billion, including Calgon Carbon’s net indebtedness. The transaction remains subject to customary closing conditions, including regulatory approvals and approval by Calgon Carbon stockholders. The parties are targeting a closing by the end of December, 2017. The acquisition will be completed through a merger of a newly-created subsidiary of Kuraray with and into Calgon Carbon, with Calgon Carbon as the surviving corporation.

# MARKET UPDATE | 3rd QUARTER 2017

## EQUITY INDICES

	3rd QUARTER	YTD (9/29/16)	1-YR (9/29/17)
 S & P 500	4.5%	14.2%	18.6%
 D.J.I.A.	5.6%	15.5%	25.5%
 NASDAQ	5.8%	20.7%	22.3%
 Russell 2000	5.7%	10.9%	20.7%
International Stocks ( <i>MSCI EAFE NR USD</i> )	5.4%	20.0%	19.1%
Emerging Mkt Stocks ( <i>MSCI EM PR USD</i> )	14.6%	24.6%	22.5%
 China (CSI 300)	14.3%	25.4%	17.8%
 Germany (DAX)	1.3%	18.3%	20.4%
 Japan (NIKKEI 225)	1.6%	6.5%	23.8%
 India (SENSEX)	1.5%	17.5%	11.5%

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

## U.S. EQUITY SECTORS

	3rd QUARTER	YTD (9/29/16)	1-YR (9/29/17)
S&P 500 Utilities	3.1%	12.0%	12.6%
S&P 500 Telecom	2.2%	3.6%	10.0%
S&P 500 Consumer Staples	-1.0%	5.7%	4.4%
S&P 500 Materials	5.9%	15.6%	22.2%
S&P 500 Industrials	5.3%	15.0%	23.1%
S&P 500 Energy	7.2%	-7.5%	-0.8%
S&P 500 Information Technology	8.0%	26.2%	27.8%
S&P 500 Consumer Discretionary	1.3%	13.3%	15.5%
S&P 500 Health Care	3.6%	20.8%	15.7%
S&P 500 Financials	6.0%	13.4%	35.0%

## FIXED INCOME AND ALTERNATIVE INVESTMENTS BENCHMARKS

	3rd QUARTER	YTD (9/29/16)	1-YR (9/29/17)
Real Estate ( <i>DJ US REIT</i> )	0.7%	4.9%	2.0%
Interm-Term Bond ( <i>Lehman Interm. Gov/Credit</i> )	0.4%	2.1%	-1.2%
High Yield Bond ( <i>BofA/ML Hi Yld Mst II</i> )	2.0%	7.0%	9.0%
Muni Bond ( <i>S&amp;P 7-12 Yr Muni</i> )	0.3%	2.0%	-1.4%
Short-Term Bond ( <i>Barclays 1-3Yr Gov/Credit</i> )	0.7%	2.2%	-0.2%
Commodities ( <i>Bloomberg Commodity</i> )	0.0%	-3.7%	-1.2%
Master Limited Partnerships ( <i>S&amp;P MLP</i> )	-2.5%	-5.3%	-2.2%

Sources: Morningstar, Yahoo, and Standard & Poor's. Performance is for 2nd quarter and 12 months ending 6/30/16. Performance includes dividends, except where noted otherwise.