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**WEEKLY COMMENTARY**

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The Markets

Is it complacency? Exuberance? Uncertainty? Exhaustion? Insight? Intuition?

Last week, all three major U.S. stock markets gained value and two reached new record highs. On the face of it, that's great news for stock investors. However, if you look below the surface, the markets' upward trend may have you scratching your head.

Barron's reported:

“That the S&P would hit a new high was all the more surprising given the lack of reaction to major headlines throughout the week. On the plus side of the ledger, Congress managed to avoid a shutdown, while on the down-side, President Donald Trump tweeted that the U.S. ‘needs a good shutdown,’ and the Federal Reserve appeared more hawkish than prognosticators had been prognosticating. Nothing. Then there's the prospect of a shocker in the French election over the weekend, though the pro-Europe candidate Emmanuel Macron is widely expected to beat the more-radical Marine Le Pen. Yet here we are. ‘It's like the market took Novocain and is numb to everything,’ says Thomas Lee, head of research at Fundstrat Global Advisors.”

It may be investors give more weight to company performance during the first quarter than to other factors. So far, 83 percent of the companies in the Standard & Poor's 500 (S&P 500) Index have reported first quarter earnings (earnings measure a company's profitability). Three-fourths of the companies reported earnings were higher than had been estimated, reported *FactSet*.

Strong earnings show companies have performed well. Price-Earning (P/E) ratios help investors gauge whether a company's stock, or a stock index, is a good value. The P/E ratio indicates the dollar amount an investor may pay to receive one dollar of a company's or an index's earnings, according to *Investopedia*.

Last Friday, the trailing 12-month P/E ratio for the S&P 500 Index was 21.9. That's quite a lot higher than the five-year average of 17.4 or the 10-year average of 16.7.

At the same time, the forward 12-month P/E ratio for the S&P 500 Index was 17.5. That's also a lot higher than the five-year average of 15.2 or the 10-year average of 14.0.

So, why are highly valued markets moving higher? It's a puzzle.

Data as of 5/5/17	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.6%	7.2%	17.0%	8.4%	11.9%	4.7%
Dow Jones Global ex-U.S.	1.1	10.7	14.9	-0.7	3.9	-1.2
10-year Treasury Note (Yield Only)	2.4	NA	1.8	2.6	1.9	4.6
Gold (per ounce)	-3.0	6.0	-4.1	-2.0	-5.2	6.0
Bloomberg Commodity Index	-1.6	-5.5	0.0	-15.5	-9.7	-7.1
DJ Equity All REIT Total Return Index	-0.3	2.7	3.9	9.2	9.7	5.0

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

IS THE U.S. GOVERNMENT WELL RUN? Stop rolling your eyes. *The Economist* reported Steve Ballmer, former head of a large tech company, has been working on a new project – completing Form 10-K for the United States of America. The project is called *USA Facts: Our nation, in numbers*.



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If you're not familiar with Form 10-K, it is the global gold standard of corporate disclosure. United States regulators require public companies to provide comprehensive overviews of their businesses and financial condition each year, including audited financial statements. The information is provided on Form 10-K.

USA Facts aggregates publicly available data from federal, state, and local governments. It then groups the data into four operating divisions based on the 'missions' described in the U.S. Constitution:

- Establish justice and ensure domestic tranquility
- Provide for the common defense
- Promote the general welfare
- Secure the blessings of liberty to ourselves and our posterity

After reviewing *USA Facts*, *The Economist* wrote:

“Governance is poor. The country is not managed using a coherent taxonomy. So, for example, the House of Representatives, the Senate, and the White House each split the job of running America into roughly 20 operating divisions. But their categories are different, meaning crossed wires and insufficient accountability...”

The findings aren't much of a surprise. The government does not compare favorably to corporations. It has a profit margin of negative 3 percent. (The S&P 500 average is 8 percent.) It invests more in the future than most companies. Research and development and capital expenditures are 12 percent of revenue. (The S&P 500 average is 8 percent.) Debt is 289 percent of tax revenues, which are a proxy for sales. (The S&P 500 average is 77 percent.)

If you'd like to review the numbers, visit USAFacts.org.

Weekly Focus – Think About It

“Ignorance and fear are but matters of the mind — and the mind is adaptable.”

—Daniel Kish, President of World Access for the Blind

Sincerely for the firm,

Kerrick W. Bubb

President, KWB Wealth Managers Group
LPL Registered Principal

The Wealth Managers of KWB & Associates, Inc. (KWB) are registered representatives with and offer advisory services, securities and insurance products through LPL Financial & its affiliates. Member FINRA/SIPC. Not FDIC Insured • May Lose Value • No Bank Or Credit Union Guarantee • Not A Deposit • Not Insured By Any Federal Government Agency Or NCUA.

* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* You cannot invest directly in an index.

* Stock investing involves risk including loss of principal.

* Consult your financial professional before making any investment decision.

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