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Economy and Markets

The economy is in its 93rd month of expansion—the third-longest boom in US history, longer than any other except the tech boom between 1991-2000 and the long expansion of the 'sixties (1961-1969). If the expansion lasts until next summer, it will overtake even the 'sixties boom. Economists theorize that such a protracted expansion may have been made possible by the shift away from manufacturing and extraction, which typically go through cycles of expansion, overproduction, and contraction into industries like health care, software, and other industries that are much less cyclical. On the other hand, an expansion that has already gone on this long may not be good news for the new administration, since the longer it continues, the more likely it is to end within the next four years.

Over the year to date, stocks have been continuing steady growth—an average of 5.93%, with the serious gains concentrated in US growth, large growth, large core, and mid growth stocks—all over 6%. Mid cap and mid value stocks have more or less held steady, while small caps and small growth stocks have shown smaller gains (and in the last week, slight declines). In sectoral terms, the big gainers have once again been defensive supply and, especially, healthcare (9.14%) and technology (10.53%). The DJIA is up 6.55, the NASDAQ 8.66. There have been some declines for very particular reasons: pharmaceuticals, the 25-member S&P 500 Pharmaceuticals, Biotechnology & Life Sciences Index dropped 1.3% this week, the largest drop since January, along with drug wholesalers, with McKesson posting a decline of 2.3%. The reason: the President tweeted again Tuesday about the need to control drug prices, complaining that pharmaceutical firms are "getting away with murder" ands saying he was working on a "new system where there will be competition in the drug industry."

Among trends worth watching is that new unemployment compensation claims are not keeping pace with the number of workers losing their jobs. The number of U.S. workers filing for first-time unemployment benefits fell to the lowest level in 44 years for the week ending on February 25. Many economists have concluded that this is because the labor market is tightening rapidly and see it as a good sign. However, layoff numbers have remained steady, but first-time UI claims have been declining since 2013. This implies that one or more other factors are exerting a

downward pressure on the numbers new claims. One could be that in a tighter labor market, job-hopping is becoming more prevalent; another, not so positive, might be the growth of temporary work and the informal "gig economy" that puts workers outside the traditional terms of salaried employment.

Another such trend is the growing US trade deficit. In February, the gap was the widest since March 2012—the largest in nearly five years, up $4.2 billion. Imports were up 2.3% , led by consumer goods and oil. Exports rose only 0.6%, though the total was valued at just over $192 billion, the highest since December 2014. Also at their highest since that same month, however, were imports, for a total of $240.6 billion. The pattern of import growth leading export growth is especially noticeable for crude oil in a time of rising crude prices: exports of light sweet crude were up by $0.5 billion, while light sweet crude imports rose by $1.7 billion—more than three times as much. On the other hand, US external debt is down by about $262.7 billion. Also, consumer confidence as measured by the Conference Board rose to 114.8 in February, up from 111.8 in June—the best reading since July 2007. Consumers seem to feel that the recession is finally over and they don't expect it to come back any time soon.

A Very Mixed Bag

The Hot List Portfolio, as usual, is quite the assortment. Sanderson Farms, a not especially glamorous poultry processing company, is doing spectacularly well; its share price has risen 17.4% since we added it to the portfolio following Benjamin Graham's Value Investor model, according to which it scores 100%. Our next-highest scoring stock is Grupo Financiero Galicia, an Argentina-based financial services holding company. Selected according to the Kenneth Fisher strategy, it fails Fisher's PSR test and has lost 5.8% since we bought it. But this may be a "glitch" in Fisher's sense, and its PSR and share price may move back into the black in due course. Another Argentine banking firm in the portfolio, though, Banco Macro SA, was selected according to Peter Lynch's Price-Earnings/Growth Ratio strategy. On that criterion it scores 0.27, which makes it a solid pick, even though its EPS growth rate is a little high.

Another new acquisition to the List is Thor Industries, which under several brand names, of which the most famous is Airstream, makes recreational vehicles and fifth-wheel trailers—one of those companies whose products you've seen many times without knowing a thing about the

maker. We selected it based on Peter Lynch's P/E-Growth Investor model. Its average Price/Earnings to Growth ratio over years 3, 4, and 5 makes it a "fast-grower" in Lynch's terms. And indeed, as we reported last week, Thor is expanding production facilities for two of its brands. Also selected according to the Lynch strategy as a fast-grower, rather surprisingly, is veteran manufacturing giant Corning Glass, whose Pyrex, like Thor's Airstream, is a household name, as are its Steuben glass figures. But Corning also produces a wide variety of glass and ceramics for industrial and aerospace applications at 90 plants in 20 or so counties around the world. Though Corning scores only 38% according to Lynch's criteria, it passes the vital P/E/G ratio test with a score of 0.33.

And then there is the 600-lb. gorilla in the portfolio: Facebook. Facebook, whose other products include Instagram, Messenger, WhatsApp, and Oculus, was selected according to Martin Zweig's Conservative Growth Investor strategy. Facebook passes the first test of Zweig's model, with a P/E ratio of at least 5 but not more than 3 times the current market P/E. Its revenue growth must also not fall far behind its EPS growth, and this test to Facebook passes. Its return is a solid 0.9% on a starting share price of $134.19.