



PACIFICUS
CAPITAL MANAGEMENT

INVESTMENT OUTLOOK – JANUARY 2017

The World Is Better Off Than You Think

“We will open the book. Its pages are blank. We are going to put words on them ourselves. The book is called Opportunity and its first chapter is New Year’s Day”.

– Edith Lovejoy Pierce



“No, I can’t make it next Friday.
How about a week Tuesday?”

Turning the page to a new year is usually bittersweet for me. On the one hand, I tend to think back on objectives that weren’t achieved and outcomes that fell short of my expectations. This usually brings out a little introspection. On the other hand, I also think forward to the coming year, the unlimited possibilities, and how things can be improved on. This unleashes the more constructive, optimistic version of myself. On average, optimistic Justin beats back pessimistic Justin, however this can sometimes take a little effort.

Recently, when I find myself sinking towards the dark side, I instead make a conscious effort at disrupting this thought pattern by thinking of my barber. I know this sounds odd, but bear with me. Out of respect for his privacy, we will call him Danny. Danny is a middle aged, Vietnamese man who gives one of the best haircuts around. He hasn’t always worked as a hairdresser and happened to fall into this trade as a

consequence of the 2008/09 credit crisis. Before this, Danny was doing well financially, however everything quickly collapsed around him and he was forced to start over from scratch. At one time, Danny owned both a liquor store and a construction business. He decided to get out of the liquor store business after he and his pregnant wife were held-up at gunpoint, while his construction business went belly-up as a casualty of the credit crisis. Subsequently, his wife gave birth to their second child, and forced to downsize, they all moved into a one-room/studio apartment. But “No big deal!” according to Danny. He feels fortunate he can provide his family with shelter, food, and a good education for his kids. He reckons he is lucky to be both alive and here in the United States, as he fled Vietnam as a child during the war. Danny told me that his family was torn apart. Some were murdered and others including his father he wouldn’t reunite with more than twenty years later. As an eight-year-old boy, he was separated from his brothers and sisters and forced to hide in the jungle for survival. Danny knows hardship, yet he is always kind, optimistic, and pleasant. I truly admire him.

Unfortunately, uplifting stories of perseverance such as Danny’s are not what most people choose to consume. They don’t sell. Sex sells of course - as do negative news headlines, which I believe tend to affect how many of us view the world. A good example of the negative news bias served by the media became apparent to me during a recent CBS Sunday Morning news segment, [“Look back: Top News Stories of 2016.”](#) Please see below the top monthly news stories of 2016 per cbsnews.com.

“In January, Michigan declared a state of emergency in the city of Flint, following the detection of elevated levels of lead in children. A switch in the city’s water supply caused lead to leach from old pipes.”

“February saw the death of Supreme Court Justice Antonin Scalia at age 79. The Republican-controlled Senate declined to act on President Obama’s nomination of Judge Merrick Garland as Scalia’s successor.”

“In March, ISIS claimed responsibility for back-to-back bombings at the Brussels airport and subway that killed 32 people. “

“On April 21st, Queen Elizabeth II marked her 90th birthday, although the full-scale public celebration wasn’t held until June.”

“In May, NASA announced its Kepler space telescope had discovered 1,284 new planets in distant solar systems. That brings the total number of discovered planets to more than 3,200.”

“June saw the mass shooting at the Pulse nightclub in Orlando. Gunman Omar Mateen shot and killed 49 people and wounded 53 others before dying in a shootout with police.”

“In July, a hot-air balloon caught fire after hitting power lines and crashed in Texas, killing all 16 people on board.”

“This past August checked in as the hottest August on record. The National Oceanic and Atmospheric Administration says the average world-wide temperature was 1 2/3 degrees Fahrenheit higher than the 20th century average.”

“In September, a bomb exploded on a busy New York City street, injuring 29 people. Suspect Ahmad Khan Rahami, an Afghan-born U.S. citizen, was arrested after a shoot-out with police in New Jersey.”

“In October, Hurricane Matthew struck the southeastern coast from Florida to North Carolina, forcing an estimated two million evacuations and killing at least 26 people.”

“November brought Donald Trump’s defeat of Hillary Clinton in the Presidential election. He won a clear victory in the Electoral College, while losing the popular vote by almost 2.9 million votes.”

“... While in December, a fire at an Oakland, Calif., warehouse filled with cluttered artists’ studios killed 36 people.”

As you can see above, most of the top stories this past year had a negative bent and were focused on topics such as illness, death, terrorism and global warming. From this, one might assume that the world and its population was busting at the seams. But is this the case?

More in line with reality is analysis via [Our World In Data](#) and [Why the World Is Better Than You Think in 10 Power Charts](#) which arrives at a positive, optimistic conclusion. Given the new year, I thought it made sense to share my happy findings. Please see the below charts and rest assure that we are living at the peak of world conditions and that the trend is likely to continue.

On financial markets, my thinking is essentially unchanged. I have become more cautious on U.S equities given the strong rally out of the Presidential election and see both international developed and emerging markets stocks as a better risk/reward investment. In my mind, the possibility of a small short-term correction in our market has probably increased a bit. Nevertheless, I think the major domestic stock indexes will continue modestly higher over the year and expect valuation multiples to expand further. I like long-term U.S Treasury bonds as both a hedge and diversification instrument against the equity portion of portfolios and do not believe bond yields will meet higher interest rate forecasts, which have become ubiquitous among many Wall Street analysts. Lastly, for those underinvested in gold, I think it could make sense to increase one’s allocation if you, like me subscribe to the view that both political and economic uncertainty are on the rise.

Sincerely,

Justin Kobe, CFA
Founder & Portfolio Manager

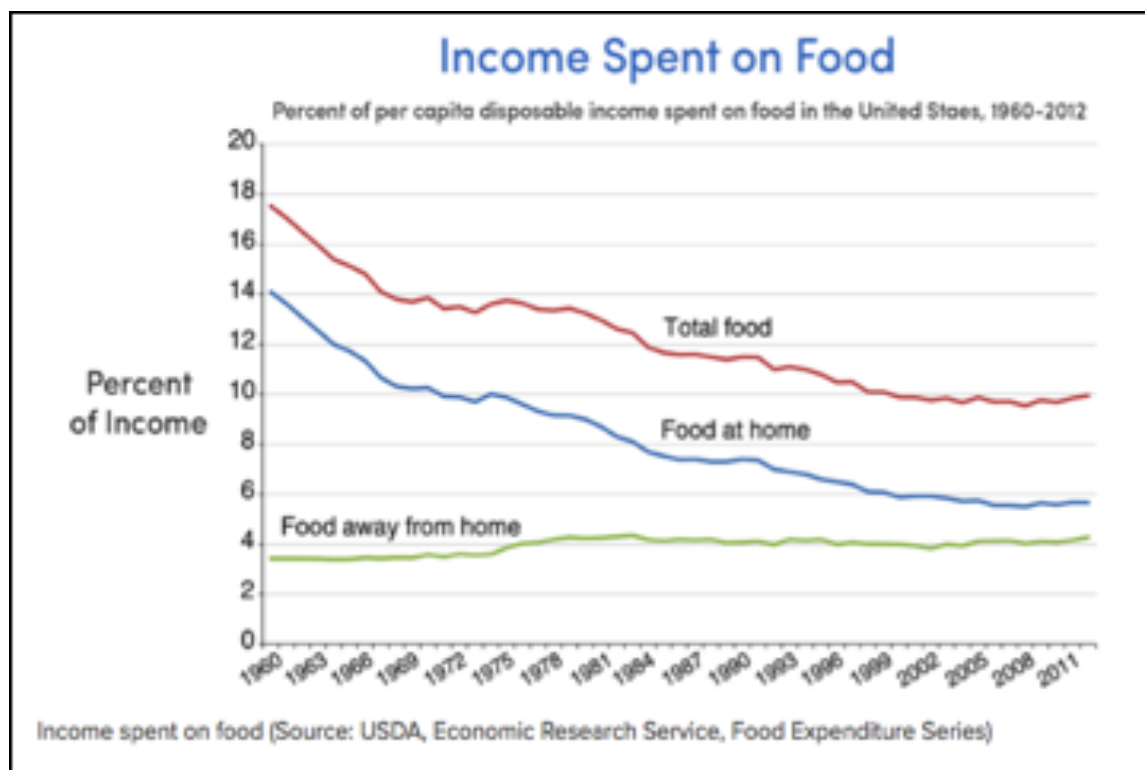


Figure 1



Figure 2

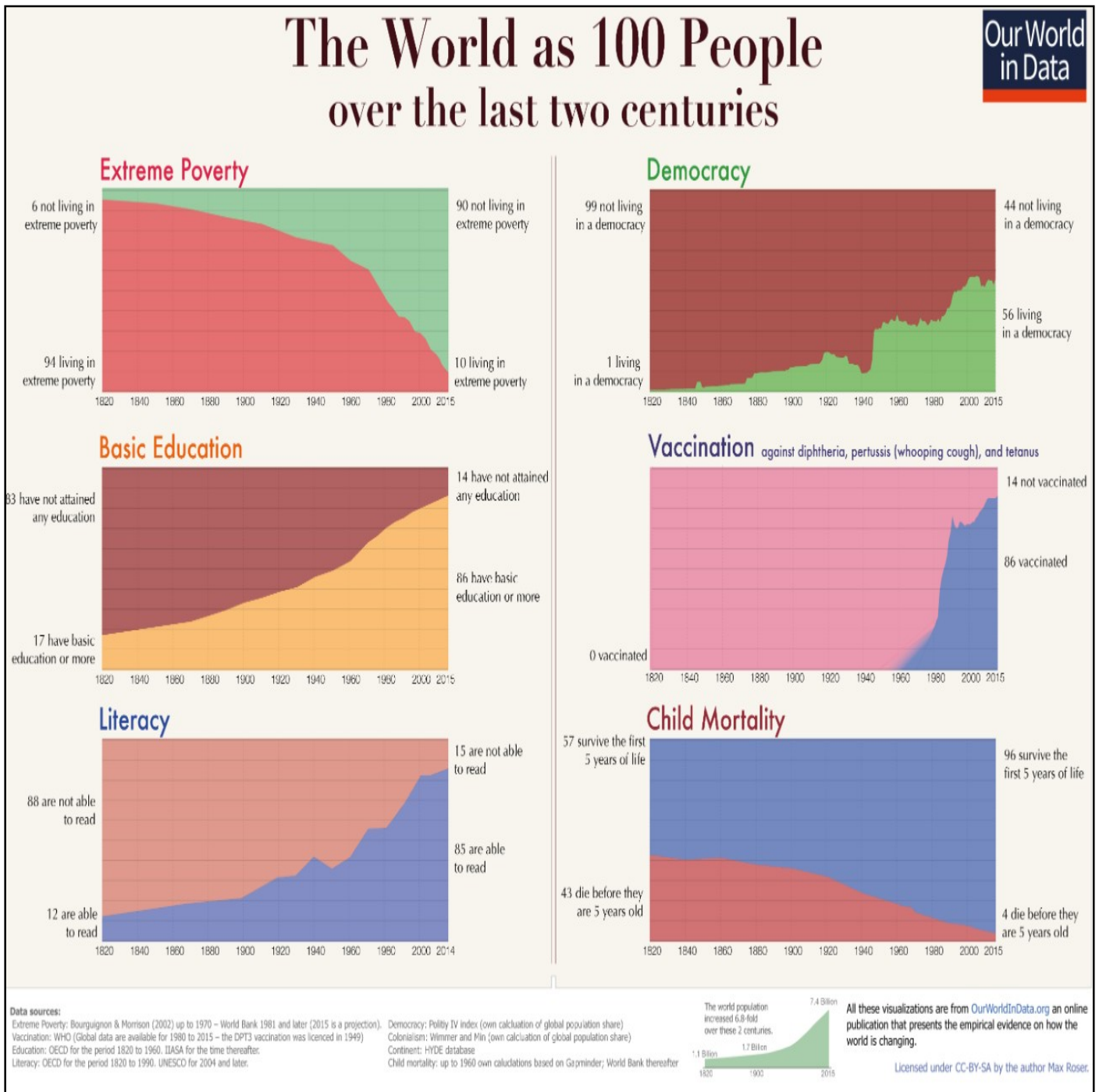


Figure 3

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