

# Perspectives

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## SECOND QUARTER REVIEW

### Will the Bull Run Continue?

Each year, the nine day festival of Sanfermines is held from July 6<sup>th</sup> to 14<sup>th</sup> in Pamplona, Spain.

Popularly known as “the running of the bulls,” the origin of this event comes from the need to transport the bulls (typically six of the toro bravo) from outside the city (where they were bred) into the bullring (where they would be killed). During the run, (mostly) young men jump in and run with the bulls in a show of bravado as they attempt to race in front of the bulls without being overtaken (or injured, or worse).

By the time you receive this edition of Perspectives, the festival will have taken place and the bulls will have run their course. However, back on Wall Street, the bull run that began in 2009 from the lows of the financial crisis appears to be alive and well. The first half of 2017 saw strength in global equity markets, with the S&P 500 Index advancing 9.34%, the Dow Jones Industrial Average up 9.35%, the Nasdaq Composite up 14.71% and the Bloomberg World Index advancing 12.00%.

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### Growth vs. Value

While there has been considerable strength in global equities, there is a sub-plot to the 2017 story in that not all stocks are faring that well. In particular, there is quite a disparity between growth-oriented companies (strong) and value-oriented dividend paying companies (not so much). As evidence of this disparity, one can compare the 2017 performance of the domestic equity strategies that we manage here at Biondo. Preliminary

returns indicate that the Biondo Focus Strategy was up 19.47% in the first half of the year and the Biondo Growth Strategy advanced 13.18%, while the Biondo Dividend Strategy was up 2.99%, all net of fees.

While it is not out of the ordinary to see disparity in these different strategies, further examination can lead to some understanding. Since the year began, the Federal Reserve has raised interest rates twice—from a range of 0.50-0.75% in January to 1.0-1.25% today. While rates remain historically low—even accommodative to economic growth, these increases do make the dividends that companies pay less attractive on a competitive basis. After all, there is inherently more volatility (risk) in owning stocks versus owning bonds, at least on a historical basis. In addition, these increases make it less attractive for companies

to employ the financial engineering tactics that have been popular in recent years. That is, since money has not been flowing into the real economy at the typical rate during economic recovery, many companies have used cash or even debt to buy back shares and/or boost dividends in recent years, making their stocks more attractive to investors. As interest rates increase, these tactics become less effective.

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## Earnings Season

At the same time, the earnings picture has become remarkably attractive for growth-oriented companies. S&P 500 earnings increased in the first quarter by over 10%, the best growth posted since 2012. As we approach the second quarter earnings season, expectations are for a nearly 7% increase for S&P 500 earnings, while expectations for the third and fourth quarter are currently set at 7.7% and 12.5% respectively. Many growth stocks in growth sectors offer even more attractive prospects—technology and healthcare in particular. As we have stated in the past, earnings growth is what drives markets higher in the long-run. With expectations for solid advances for the foreseeable future, we expect markets will continue to be favorable from an earnings perspective, particularly for growth-oriented companies.

While earnings have been strong and expectations are robust for the remainder of the year, we do have concerns as we move forward. The current bull market began more than eight years ago. Along the way, we have seen market corrections of 10% or greater approximately every 12 to 18 months. The last such correction ended in February of 2016, so it would not surprise us to see another correction at some point this year.

The Republican majority has continued to struggle with its agenda. In the spring, Congress' attempt to "repeal and replace" the Affordable Care Act was not successful, and recently the Senate version had to be delayed due to a lack of support. As a result, tax reform policy now faces uncertainty as to impact and timing. While we had low expectations for a major infrastructure package, news on that has been sparse. Whether or not these factors are priced into today's market levels remains unseen. US equity markets currently hover near record levels, making them susceptible to negative shocks in the near term.

## Our Portfolios

As always, we remain focused on what is in our control—the companies that we are invested in and positioning the portfolios that we manage to fit our intermediate and longer-term outlooks. We will continue to own what we believe are great companies run by excellent management

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teams with solid prospects for future growth. As always, we will continue to monitor and fine tune these portfolios as our outlook for each individual company changes over time.

As a company, things are both busy and exciting at Biondo Investment Advisors. Our team has handled the transition to Fidelity thus far in a relatively smooth manner. While there is still work to do, we are enthusiastic about this transition and what it means to our (and your) future. We appreciate your responsiveness and shared excitement. As you will read on page 4, our expansion to Sparta is in full swing and we look forward to its completion and to opening the additional office location this Fall.

As always, we encourage you to call and/or visit us with any questions or changes to your financial lives as they occur. Our team is always prepared to help you navigate this aspect of your life and we welcome any and all feedback that you may have. In the meantime, we wish you and your family a healthy and happy summer season.



*J. P. Biondo*

**Joseph P. Biondo**  
Managing Director  
Chief Executive Officer  
Chief Investment Officer

Sources: Index Performance – Bloomberg; Growth vs. Value – Seeking Alpha; Strategy Returns – IAS & Market Street Advisors;

Interest Rates – Federal Reserve, Bloomberg; Earnings Growth – Bloomberg and Factset Research; Bull Market – First Trust; Corrections – Yardeni Research; Senate – Politico; Record Levels – Morningstar.

*The information set forth regarding investments was obtained from sources that we believe reliable but we do not guarantee its accuracy or completeness. Neither the information nor opinion expressed constitutes a solicitation by us of the purchase or sale of any securities. Past performance does not guarantee future results.*

## Responsible Legacy Planning

Recently, during a portfolio review, a client of ours realized that they had done nothing to plan for the responsible distribution of their assets upon their incapacity or demise. Understanding that these topics are difficult to discuss, we cannot emphasize enough how proper planning results in the eventual preservation of assets and minimization of taxes.

We discussed various contingencies, and a number of questions were posed that needed to be considered, such as:

1. How are your assets currently titled and who is the beneficiary of your policies, annuities and retirement plans?
2. Are you positioned to minimize state and federal estate taxes?
3. Are your beneficiaries mature enough to handle a lump sum distribution?
4. Who will take care of your children and/or pets when you are no longer here or able?
5. Are there any charities and/or foundations you wish to endow?
6. Do you have assets titled in more than one state?

These are just a sample of the questions that need to be addressed utilizing responsible legacy planning. For some, a simple will, durable general power of attorney and durable power of attorney for health care will suffice. This rather simple and cost effective process should be done by everyone, regardless of net worth. More advanced estates do generally require more complex solutions such as revocable and irrevocable trusts.

Our goal as a Comprehensive Wealth Management firm is to be a resource for our clients in all matters pertaining to their financial well-being. Please consider our guidance and experience when planning needs arise.



**Karl Wagner III**



**Scott Goginsky**

## Tech Sector Trends

On May 8-10th, Scott Goginsky attended the Jefferies Tech, Media & Telecom conference in Miami, FL. Over 100 companies presented at the well-attended event. Key themes included virtual reality, artificial intelligence, on-line advertising, and autonomous driving. Many investors were especially interested in the rise of bots/personal assistants, such as Amazon's Alexa or Google Home.



### Cloud Storage

Biondo Investments is interested in the tech and telecom sectors

as many investable themes appear to be taking form. The continued shift of data to the cloud is presenting new technologies and investment in areas of enterprise storage and data security.

As more and more data is stored in the cloud there is an increased need for servers to house that data and the protocols to protect it. The internet also continues to be a growth area as the so-called "FANG" stocks (Facebook, Amazon, Netflix and Google) continue to perform.

### Tax Repatriation

Another key area of discussion was the possibility of a tax repatriation holiday and its impact on the tech

sector. Many tech companies hold large amounts of cash overseas. The ability to bring this cash back into the United States with little or no tax implications would likely be a boost to the sector and the economy as a whole.

Much of the discussion was focused on the ultimate uses of this cash by these companies. Possibilities discussed included increased mergers and acquisitions, investment in new technologies, or even special dividends.

As always, we are looking for companies that are involved in these technologies and have quality management teams. In managing your portfolios, our portfolio management team has been looking to add more positions that have exposure to these technologies and are selling for reasonable valuations.

## Progress on Sparta, NJ Satellite Office

We are excited to report to our clients that the finish line is in sight, as the construction moves forward on the second office for Biondo Investment Advisors.

In the very near future, residents and visitors will see a lovely, two-story brick office building situated in the heart of Main Street in Sparta, NJ. It is our hope that the building will be completed by October. We will then have a Grand Opening event to usher in the new site!

We have long felt that we needed a presence in Sussex County to offer our current clients who reside there a more convenient location. Many Milford clients have asked if we will be closing the Pennsylvania office and the answer is a resounding negative!

Pike County will always be our primary office. The Sparta office offers our current clients more convenience and presents our firm the opportunity to grow.

Please stay tuned for more information on the completion date and the Grand Opening event. As always, we welcome you and anyone you feel would benefit from our experience and services to attend this event.



## Welcome to the Team

**Biondo Investment Advisors recently welcomed two summer interns.**

**Corey Chelak**, left, joined us during the last week in May. He will be lending support to our Operational team. Corey is a Math and Economics major entering his junior year at Lafayette College in Easton, PA. He is considering a career in actuarial science or risk-related investments, although he is keeping his options open. Corey, from Milford, enjoys spending time with family and friends. He also enjoys the outdoors, playing soccer, basketball and other activities that keep him physically active.

**Scott Brown**, right, a Finance major entering his junior year at the University of South Carolina, has returned for his second summer with us. With a minor in French, he intends to apply to the university's International Business School upon graduation, and to pursue a career as an investment advisor, specifically dealing with foreign currency trades and investments. Scott will be assisting our Portfolio Management team, gathering and managing daily research, as well as assisting the Business Development team. Scott, from Milford, also enjoys spending time with family and friends. His sporting interests include golf, fishing and hiking.



## Thank You!

The entire Biondo Team thanks you for your time and cooperation in assisting us on a successful conversion over to Fidelity's platform. We realize paperwork can be daunting and consuming at times; thank you for embracing it.

At this point, most of our clients have completed the conversion with us to the Fidelity platform, and are settling

into the same routine and customer service they have come to expect from Biondo.

We urge all clients who *have not* yet returned their paperwork to contact us so we can assist in helping you through the process.