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Weekly Wrap Up • June 3-7, 2019 • formanis.com

What's Jim Doing These Days? An Update on Jim Forman

In the financial management business, one would think the number one question would be related to investing and wealth management. In the case of FIS, our number one most asked question is "How is Jim doing?".

To answer this question, we asked Jim himself about how retirement is treating him and his wife, Barb.

As many already know, Jim retired from Forman Investment Services in December 2017 after a minor heart attack in July of that year. "Unfortunately, as much as I loved working at FIS and with our clients, the financial management business is a stressful one and not conducive to heart-healthy living. Barb and I decided that it was time to step aside and allow Troy to take on the day-to-day running of the business and to spend some time together enjoying each other and our shared hobbies."

So, what does a day in the life of Jim and Barb Forman look like now? It still includes attending activities with their kids and grandkids, volunteering at First Christian Church in Columbus, where Jim serves as Chair of the Board of Trustees and both are involved in various other groups and activities, serving as President of the Foxpointe Office Park Condominium Association (where the FIS offices are located) and working together on various home improvement projects. Jim has also been a faithful follower of the exercise regimen prescribed by his cardiologist and remains in excellent health.

Jim and Barb have also joined many of their clients in Florida during the winters. They've wintered in Bonita Springs and Siesta Key/Sarasota and plan to return to Bonita Springs this winter. As Jim tells it, "Barb and I are both beach bums at heart, so there's nothing better than January and February spent in 70s and 80s with your toes in the sand!"

As far as being missed, Jim appreciates all the clients who have asked after him. "I miss working day-to-day with our clients, who are the best in the world," he said. "However, I am so fortunate that Troy and Cindy have built such a wonderful team to support our clients. I have no doubts that they are receiving the very best care."

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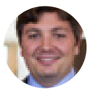
What happened in the markets last week?



by David Abuaf - Investment Manager, RJFS

News for the Week

General Markets / Economic

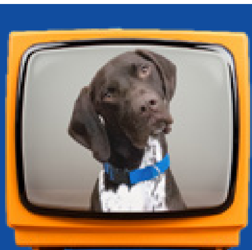
1. Airline industry earnings this year are expected to fall 21% short of expectations with trade tensions and rising costs denting the outlook
2. Federal antitrust enforcers and lawmakers are poised to scrutinize the nation's largest tech firms for potential anticompetitive practices
3. US manufacturing growth slowed in May amid renewed trade tensions
4. The World Bank lowered its global growth forecast for the year to 2.6%
5. The ECB's Draghi opened the door to rate reductions for the eurozone economy, a significant policy shift

Company News

1. Blackstone is buying a network of US industrial warehouses from Singapore-based GLP for $18.7B
2. Airlines are increasingly anxious that Boeing's 777X long-haul jet will be delivered late, another potential setback for the plane maker
3. The drop in Tesla's deliveries has spurred questions about the depth of consumer demand for its cars
4. Infineon agreed to acquire Cypress semiconductor for $9.4B
5. Fiat Chrysler withdrew its proposal to merge with Renault after the French government balked at the deal because it lacked the support of Japan's Nissan
6. YouTube said it is stepping up efforts to remove hateful content

Interesting Stories

1. There's one thing people can't buy in the US from Volkswagen – their best seller, the company's curry-flavored sausages. These sausages are available in 11 countries, but the US is not one!



Turning Back the Clock to 1999

Jun 16, 1999: Thabo Mbeki is elected the second President of a democratic South Africa.

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Weekly Commentary

It has been a while since a massive stock market rally has frightened us this much.

On first glance, there seems no reason to be scared. The S&P 500 rose 4.4%, to 2873.34. It was the best week since November 2018.

Credit for the rally could be given to headlines about trade—the U.S. might not raise tariffs on Mexico on June 10, after all—and hopes that the Federal Reserve will cut interest rates, even if those hopes were fueled by disappointing economic data such as this past Friday's payrolls report. But, as Nicholas Colas, co-founder of DataTrek Research, noted after the S&P 500's 2.1% rise last Tuesday, "happy markets don't surge 2% in a day. Worried markets do."

That was certainly the case back in November, which preceded a very bad December. It's hard to see an imminent repeat of December's market slide, however, as the latest advance didn't attract as much buying.

The market, at its most basic level, is a math problem: The level of the S&P 500 is a function of earnings expected from S&P 500 companies multiplied by how much buyers of stocks are willing to pay for those earnings. Right now, S&P 500 companies are expected to report earnings of $168.01 a share in 2019, according to FactSet, up 3.1% from 2018. The consensus estimates for 2020 is $186.52. Dividing the S&P 500's latest closing price by 2020 earnings estimates yields a price/earnings ratio of 15.4.

The trade war, however, has made relying on those numbers nearly impossible. On May 31, Citigroup strategist Tobias Levkovich introduced his 2020 earnings target of $178.50, which would mean that either the S&P 500's P/E multiple would have to rise, or the index would have to fall. But even Levkovich acknowledges that his number may be wrong. "It is extraordinarily difficult to measure the potential repercussions from a full-on trade war," he writes.

Even trying to get 2019 right isn't going to be easy. Analysts expect earnings to fall by 2.3% during the second quarter and stay basically flat during the third before a 7% rise during the fourth quarter produces any growth at all, observes DataTrek's Colas. That seems like a lot to ask.

The Fed's move toward easier monetary policy, which began in January, could give stocks a boost. But those kinds of shifts take about six months to work through the system, so we won't know for sure until third-quarter earnings season. "In the third quarter, we will start to find out whether the easing policies are starting to work and whether they prove to be more than enough to offset the negative impact from the trade wars," explains Leuthold Group's Jim Paulsen.

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