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The first quarter of 2017 ended with a 5.53% quarterly gain in the S&P 500 index. The NASDAQ 100 index out performed the broader averages with a gain of 11.77%. Although the Trump rally continued during the first two months of the quarter, an obvious fade developed in March. This is a result of serious questions being raised over the ability of the new administration to work with an old ineffective Congress. This not only puts the future of the market in doubt but the general welfare of the American family as well.

The performance numbers for the first quarter are shown below.

1st QUARTER, 2017 - EQUITY MARKETS

INDEXES	QTR %	YTD %	H-L %	OFF 07 High	OFF 09 Low
DJIA	+4.56%	+4.56%	-54.10%	+45.54%	+217.07%
S & P 500	+5.53%	+5.53%	-57.69%	+49.92%	+254.39%
NYSE Comp	+3.94%	+3.94%	-59.74%	+10.64%	+174.83%
NASDAQ 100	+11.77%	+11.77%	-54.50%	+142.77%	+433.56%
VALUE LINE A	+3.74%	+3.74%	-60.41%	+117.69%	+450.06%
XAU	+6.23%	+6.23%	-69.65%	-59.97%	+31.88%
XOI	-6.76%	-6.76%	-55.25%	-28.95%	+58.57%

First quarter estimated earnings for the S&P 500 are projected to be $26.87. This converts to an annualized figure of $107.48. This implies a price/earnings ratio of 21.98. This is certainly a higher P/E ratio than the historical norm of approximately 15. However, there are now eight consecutive quarters where the estimated earnings substantially overstate the actual earnings for the same quarter. Lets look at the data for the last eight quarters.

QUARTER	ESTIMATED EARNINGS	ACTUAL EARNINGS	% SHORT FALL
2015-1	$24.69	$21.81	-12%
2015-2	$26.28	$22.80	-13%
2015-3	$26.46	$23.22	-12%
2015-4	$27.64	$18.70	-33%
2017-1	$24.74	$21.72	-12%
2017-2	$26.38	$23.28	-12%
2017-3	$26.95	$25.39	-6%
2017-4	$29.03	$24.16	-17%

The experts have established an impressive record of over estimating the earnings for the S&P 500. Using the actual earnings for all of the last four quarters the P/E ratio would be 24.98. (2362/94.55) The market is clearly over-valued by historical standards. Previous occasions where the P/E ratio reached these inflated levels were typically followed eventually by a significant market correction. Investors holding equities at these valuation levels usually find that they have realized little or no return on investment over the next five years. If the S&P were to settle back to a more normal P/E level of 15, the S&P would need to drop about 40% to approximately 1400 based on actual trailing 12-month earnings. Even if we use the "very suspect" estimated 1st quarter earnings, the S&P would need to drop to about 1700 to establish a more normal stock market valuation level.

The FED raised interest rates again on March 15th by increasing the FED funds rate by 25 basis points to a range of 0.75% to 1.00%. This is the third such rate increase since December of 2015. In addition, the FED is forecasting one or two additional increases in the FED funds rate by the end of 2017. The most recent guidelines released by the FED indicated that they are expected to take this benchmark rate to 1.4% by the end of 2017, 2.1% by the end of 2018 and 2.9% by the end of 2019. Their projected long-run target rate is 3.0%. It is interesting to note that the March 15th increase in the FED funds rate has had virtually no impact on longer-term bonds rates. The 10-year T-Note yield closed at 2.40% at the end of the first quarter. This compares with a rate of 2.45% on December 31, 2016. If the FED does follow through with their stated plans, bond rates will eventually increase causing declines in the market value of existing bond portfolios.

The U.S. Dollar has trended lower during the first quarter. This helped to reverse the slide in precious metal prices. Both gold and silver prices posted nice gains during the quarter. Spot gold closed at $1,248 and silver closed at $18.21. Inflation rates have recently showed signs of heating up and if this continues, precious metals prices will get an additional push upward. It is interesting to note that equity prices of the mining companies have not lead the increase in the price of the metal. The XAU ended the quarter with less gain than the metal. This is unusual. It suggests that investors are not convinced that inflation will continue to move higher, at least over the short-term.

The jump in oil prices that followed the OPEC agreement to reduce production simply did not last very long. Oil prices have dropped below $50 a barrel again in March and then closed back up to $50.71 a barrel on March 31st. The impending changes in the U.S. Government energy policy will likely work to increase production in North America. U.S. inventories have already begun to grow and this is likely the primary cause of the recent slide in crude oil prices since the OPEC agreement actually appears to be holding for the time being. It may be years before the oil prices get back to the $80 to $100 price.

The post election Trump rally moved the S&P 500 index up nearly 15% before the March fade began. This rally was obviously driven by high level of investor optimism sparked by expectations that "the swamp could be drained" and several pro-growth policies would be implemented quickly after the new administration assumed power. The March fade likewise was caused by a cold dose of political reality setting in. There are at least three (maybe four if we include the Courts) deeply embedded and relatively immovable forces that will act to prevent or at least delay any positive action coming out of the District of Corruption. The first and most obvious immovable force is the Democrat side of the aisle. These folks are totally ticked off that their prize donkey did not win the White House. The second somewhat less obvious immovable force is the Republican side of the aisle. They are fractured into separate clans and many are also ticked off that none of their favorite elephants were able to beat out the boisterous outsider. The third immovable force is even less obvious. They are the career bureaucrats who are completely insulated from the election process and don't need to respond to anyone beyond their own self interest. These three forces have collaborated for decades to create a legal and regulatory incomprehensible maze that does not serve the interests of the average working class family. So the Obamacre disaster just continues to move toward a total destruction of the healthcare insurance system for working Americans while millions

of American workers had their previous employer provided health insurance program declare illegal. The most growth stifling tax system in the world continues to encourage business and jobs to move offshore. Our education system is failing to provide appropriately qualified young workers to satisfy the needs in our society and our American industry. The broken immigration system continues to bring crippling economic burdens into cities and states along with a higher level of crime. Our infrastructure continues to fall apart while only about 15% of the 800 billion Obama stimulus actual went into the acclaimed “shovel ready projects”. Finally, our seriously degraded military will continued to park much of their outdated and broken equipment in garages that do not have the parts needed to make repairs.

The pregnant question is, how can this mess ever be fixed? Elections have only limited impact as demonstrated by the 2016 election result and what has followed. There was a quiet revolution that swept through the millions of working class voters in 2016, especially in the more rural areas of North America. (See the attached voting results by county and understand the Electoral College) A second thrust of this working class revolution would need to help “drain the swamp” bring about a wholesale change in the parasitic career politicians who presently “own” Congress. These people pass laws for the masses while excluding themselves from the consequences of those laws. Then they follow up with granting themselves benefits and perks that the average American could not even dream of ever seeing. It would be extremely helpful if we allowed politicians to occupy a federal office for only one four year term without special perks or benefits and then only after being in a successful private career for at least a decade. In the meantime, our hope is that the quiet revolution of the working class, who are paying the bill for all this madness, will actually pick up momentum. We hope that even more of the discouraged nonvoters will join the efforts to bring about badly needed changes to fix the problems that been born out of a government that serves it’s own operatives rather than the people who go to work every day to pay their own way.

The last administration ran up ten trillion dollars in Federal debt while failing to fix any of the problems cited above. By comparison, the first 43 administrations collectively ran up less than that amount of Federal debt over the previous 232 years of our country’s existence. Our government is broken.

Respectfully,
Robert T. Patton