



The Centurion Counselor

Fourth Quarter 2016

UNDERVALUED SECTORS (CONSIDER!)

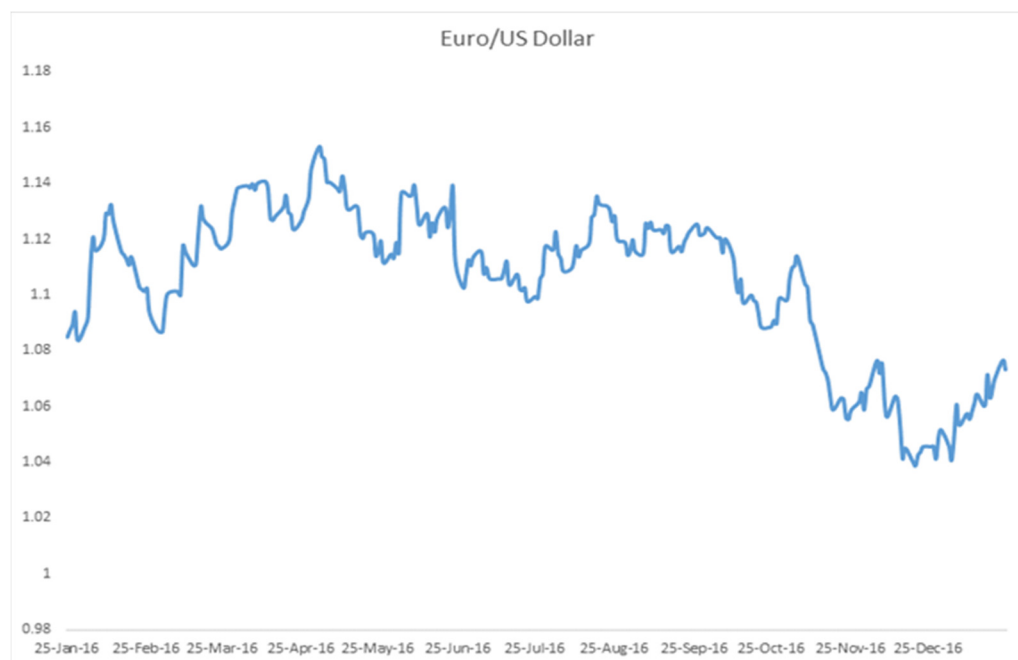
- MINING
- NATURAL GAS
- AEROSPACE/DEFENSE
- SMALL CAP VALUE

OVERVALUED SECTORS (AVOID!)

- LONG-TERM BONDS
- CHINA
- BRICK & MORTAR RE-TAIL
- JUNK BONDS

2017

Heading into January the market appeared to be 100% certain that the U.S. Dollar would continue to appreciate against the Euro, because the Fed was more hawkish, and the European Central Bank (ECB) was going to have negative rates and Quantitative Easing (QE) forever. See chart below:

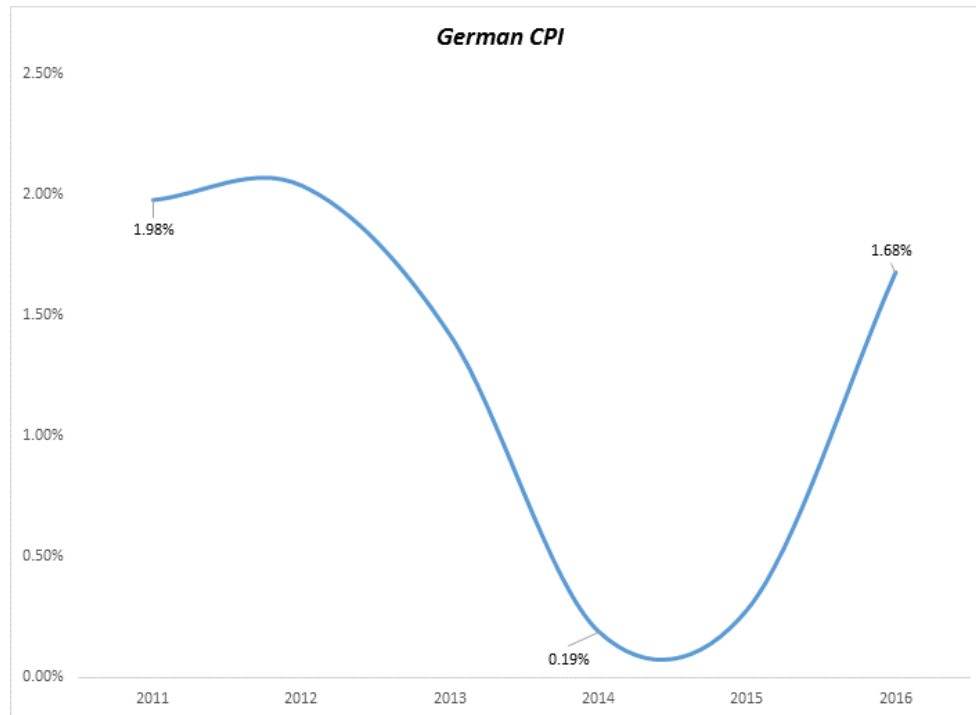


Today, the market is not so sure as the Fed has appeared less hawkish and there's a backlash building in Europe about zero/negative rates and how they are destroying savings. In addition, Germany is finally starting to get some inflation. See chart on next page:



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Today the U.S. Dollar is the best house on the block. What happens if the U.S. gets tighter monetary policy than elsewhere in the world? We are pretty sure the Fed will hike interest rates at least once this year (and maybe three times) but what if the ECB or the Bank of China or the Bank of England also hike interest rates and Japan's monetary policy tightens?

Most events in the world of economics are connected to some degree. If the market believes that we'll grow north of 4% on Trumponomics, bonds sell off, the Fed hikes rates, and the U.S. Dollar gets stronger. In addition, yield curves will steepen and the financials rally. If the market begins to doubt that will happen, bonds rally, the Fed goes slow, and the U.S. Dollar gets weaker. Yield curves will then flatten and the banks will sell off.



How did we do last year?

We will divide our predictions from 2016 (1) “dead on” or (2) “frankly missed the mark”

“Dead On”

We stated “The Eurozone will continue to have problems causing more speculation about its eventual demise. Far right parties will gain ground.”

Britain voted to pull out of the Eurozone, far right anti-immigrant and anti-euro political parties are leading polls in both Italy and France.

“Oil prices will rebound”

The chart below shows just how well oil did in 2016:





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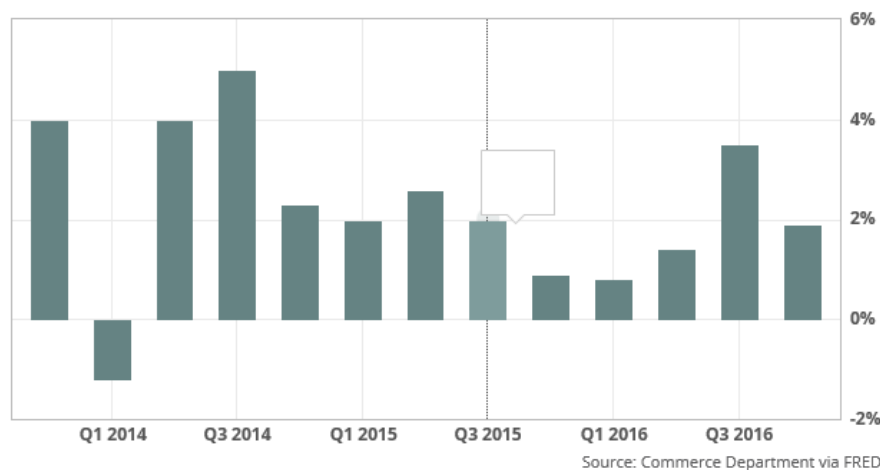
“Interest rates will remain tame”

The Fed raised rates only once in December. Rates remained constant until post-election when they moved slightly higher. See chart below:



“The economy will slow later in the year”

After chugging along for several years, economists estimate that Gross Domestic Product slowed to 1.6% in the 4th quarter of 2016. See chart below:





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“Central Bank policies around the world will come into question”

Savers and economists around the world have come out against zero and or negative interest rate policies. Even central bank board members are questioning their policies. In September ECB board member Benoit Coeure, speaking in Rome, said that "low forever" rates would risk tearing up the social fabric. He then added “If fiscal and economic policies do not in fact play this role, we risk being trapped in a low growth, low interest rate equilibrium.”

“Missed the Mark”

We believed that “Saudi Arabia would devalue its currency and face internal problems from its Shia minority.”

The Saudi’s held the value of their currency steady against the U.S. Dollar for all of 2016. While they are engaged in a proxy war in Yemen, there were no major problems domestically.



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Our 2017 Predictions

- U.S. Government regulations will be cut;
- Tax reform will occur but late in the year;
- Small Caps will outperform large cap stocks;
- The economy will slow down edging on the verge of recession in the second quarter;
- Japan's economy will show signs of life after a lost generation;
- Trump will have a successful first year in his Presidency because expectations are set so low;
- China will devalue their currency