Our team adheres to a set of principles designed to provide an exemplary client experience

- We believe the trust of our clients is earned over time and remains our most important asset.
- We take great pride in the professional quality of our work. Exceptional client service that is proactive, thoughtful, and customized.
- Competitive investment returns with a focus on risk management.
- Sophisticated financial planning—an essential pillar in the development of your customized investment strategy.
- We believe in continuous improvement. As our clients’ needs change, we learn and adapt.
- We stress teamwork in everything we do and remain accountable for our responsibilities.
- Integrity and honesty are at the heart of our business. Integrity – we do what we say we’re going to do, full disclosure and no surprises. Honesty means we give it to you straight, even if it means having a difficult conversation.
- We regularly receive confidential information as part of our normal client relationship. It is our responsibility to protect against the unauthorized disclosure of this information.

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The first quarter earnings season is in full swing. The big technology companies have mostly reported, and for the most part have beat expectations. As for the broad spectrum of all companies, so far, according to Bloomberg, the Q1 GDP growth surprised to the upside coming in at 3.2% versus 2.3% in a survey of economists. With 230 of the S&P 500’s 498 companies thus far having reported, first-quarter earnings season has thus far surprised to the upside with earnings up 2.02% on the back of 3.71% revenue growth—clearly not recessionary numbers on any level. In late February Leon Tiey’s E-mail to Jeffrey Saut of Raymond James summed it up pretty well, “In December, investors panicked and sold down equities. Consequently, they are grossly under-invested in equities and are sitting on record cash levels. Although short-term optimism has risen, sentiment backdrop remains one of fear, not pessimism, but fear. More importantly is global easing. Because of global slowing, the EU, Japan, and U.S. are becoming more dovish. As mentioned before, Jerome Powell, the Fed Chairman, made a profound announcement that few paid attention to and has smoothed out the wild swings in the past economic cycles by fine-tuning the monetary policy. If successful, the US and the world will see a period of unparalleled prosperity as history shows that the best environment for equities is in a period of modest growth and stable inflation, not too hot, not too cold, the so-called Goldilocks economy.”

So with the economy and the markets doing better than was expected, the question that looms is, “What keeps us up at night, and concerned about the future now that we are challenging the old highs set in 2018. In Barron’s this past weekend this question was posed to Edwin Johnston of Sandhill Investment Management. He addressed these concerns. He started by mentioning that we are now 10 years into our expansion and the average cycle runs 7 years, so we are clearly long in the tooth here. He went on to mention the four biggest concerns that are continuously being beat into our heads by the media; Chinese tariffs, Brexit, interest rates—recession fear, and the border wall with Mexico. All of these are well known, but Johnson went into more detail on the two big worries that he feels could cause severe dislocation in the capital markets; the biggest is the ever increasing social divide and wealth gap between the 1/10th of one percent and the 99/10th of one percent that control 12% of the economy. The second thing that keeps him sleepless is the total federal deficit. It’s now just shy of $22 trillion, or 107% of GDP. When economies get very levered it only takes one dislocating event, like a bad quarter to create shock waves.

So Why Is Everything Going So Well Then?

Fears of recession or of a bear market have been the back drop since this bull market advance began after Election Day. Since 2008-9, the financial crisis was so financially and emotionally devastating for so many that it left the typical investor, whether individual or institutional, risk and volatility phobic, determined to avoid a repeat of that catastrophe and subsequently doomed to leave a lot of money on the table in the search for safety. This is similar to the impact of the Great Depression of the 1930’s on the public. That shock was so severe, following the long and exuberant prosperity of the 1920’s, that it induced a high degree of financial conservatism and desire for safety compared to what had gone before. Economic conditions change, but human psychology is pretty consistent in how it reacts to stress and loss. Another behavior that has harmed investors’ results for the past decade is the attempt to forecast the twists and turns of the US or global economy, usually on a short-term basis, and to adjust portfolios accordingly. The motivation here is to try to avoid a recession and bear market. In addressing this action, I agree with
the remarks of Peter Lynch, Fidelity's great portfolio manager, who said he did not spend 15 minutes a year trying to forecast the economy. He said he believed that more money was lost worrying about or preparing for recessions than was lost in the recessions themselves! People who try and invest based on this macro data added no value but did hurt their performance. No one has privileged access to the future, which is largely unknowable, except in broad, probabilistic outlines.

So what is really going on now? The economy is in a long expansion (10 years) which shows no signs of ending—probably because it is happening at a slow and sustainable rate. The Fed is accommodative and has indicated it is in no hurry to raise rates. Inflation is low; interest rates provide no significant competition to stocks. Dividends for the S&P 500 grew 9.9% for the four quarters ending March 31rst (source: Bloomberg). There is plenty of room for dividends to grow faster than earnings since the current payout ratio is 35.5% compared to 52% on average since 2016, and buybacks are at a record level. The backdrop is promising. The fear is at this point based on short-term political issues which strum the emotional heart strings of the investor.

Is there any history that has resembled the current economic prosperity, yet was also experiencing long periods of unexpected deflation at the same time?

THIS POINT I FIND TO BE THE MOST IMPORTANT, YET MOST OVERLOOKED ECONOMIC TRANSFORMATIONS OF GENERAL PURPOSE TECHNOLOGIES PHENOMENON THAT HAS BEEN DUPLICATED THREE MAJOR TIMES IN HISTORY. Technologies 10,000 years before 900 A.D. included plant domestication, animal domestication, smelting of ore, the wheel, bronze, writing, iron, and the waterwheel. 900-1900 A.D. included the three mast sailing ship, printing, steam engine, factory system, railways, iron steamship, internal combustion engine, automobile and electricity. In the 20th century it was mass production, computers, the internet, and biotechnology. It has been so long since the last bunch of innovations that current investors have no recollection nor has anyone loudly brought the current innovations to light.

During the 50 years ended in 1929, the last time that three or more general purpose technology platforms were evolving simultaneously, the yield curve was inverted more than half of the time, yet there was clearly overall, no recession! The disruptive innovations of that time— the internal combustion engine, telephone, and electricity— stimulated rapid real growth at low rates of inflation. Prices remained a constant yet profit margin continued to expand and revenues increased. Now, we are experiencing; mobile connected devices, the internet, autonomous robotics, machine learning, and block chain technology.

How much growth happens with a new technology? To answer this let's look at the cloud. The newest place that all data is being uploaded to accommodate the current internet, machine learning and block chain benefits. According to the 451 Research project, the cloud continues to lead the era of IT transformation, compounding the volume of data being uploaded to the cloud at a 14% compounded rate between 2018 and 2023. Therefore the cloud services standout as the single largest area of IT budget expansion. The market leader in web services is currently generating more than 40% of the market share in the space. Given that there are five vendors that make up almost the entire cloud storage space, this is a huge percentage. According to a Change Wave survey from this month, from a demand perspective, corporate respondents say they continue to see a lot of strength in company willingness to spend money on IT products and services. More than half (56%) say they have a green light which remains near the best reading in the post-recession era. This signals that if there is budget allocated for use, a majority of companies are prepared to spend without restraint on the IT products and service they need. Current cloud spending this year is in the area of $350 billion across all channels according to Wedbush Internet analysts. By 2025 this number is expected to be $3 trillion. With current margins of almost 30% on revenues, this number could provide for much higher prices for the big 5 companies as well as all those software companies that provide value added to companies that are manipulating the data within the cloud.

In closing, we look back at the most recent market scare, the decline in Q4 of 2018. We notice that it was brought on by an overly restrictive Fed who changed course and has a completely different message today. Can the markets continue higher? Of course! Will there be pullbacks or flat periods of digestion of the highs? Of course! Will the big two, income disparity and US government debt be a problem? Eventually they could. The future is still yet to be written, and at this point companies still seem to be progressing, unemployment continues to bounce at the lows seen in many decades, wages are on the rise, and the lack of equalities in the workplace are being addressed. This all adds up to be a backdrop that “should” provide higher equity prices, bigger dividends and continued share buybacks. If things change, we expect to change. If the ship stays on the current course of calm seas and sunshine, sit back, relax and enjoy the ride. And for goodness sake, turn off all the political bashing and FOX news! Things are pretty darn good!

We will strive to make sure YOUR INDIVIDUAL situation is addressed and managed per your risk parameters, time horizons and financial goals to the best of our ability. But we will place one huge burden on you; if you don't take the time to understand your own situation, we will be hard pressed to be able to do it without your input. In 2019 we want your input and we want to make sure you are set up for whatever the future holds.

As always, we are here to address any particular concerns or questions you may have. At times a discussion is very helpful. We are here and available for you or anyone you know who might want to ask us for our opinions.

All the best in these tenuous times,

Ken, John, Peter, and Rachel

*Past performance is no guarantee of future results.

This overview was written by Kenneth H South a Financial Advisor with Oppenheimer & Co. Inc. (“Oppenheimer”) who can be reached at (949) 219-1032. His opinions do not necessarily reflect those of Oppenheimer. This overview is not and is under no circumstances to be construed as an offer to sell or buy any securities. The information set forth herein has been derived from sources believed to be reliable and does not purport to be a complete analysis of market segments discussed. Opinions expressed herein are subject to change without notice. Additional information is available upon request. Oppenheimer & Co. Inc., nor any of its employees or affiliates, does not provide legal or tax advice. However, your Oppenheimer Financial Advisor will work with clients; their attorneys and their tax professionals to help ensure all of their needs are met and properly executed. The Standard & Poor's (S&P) 500 Index is an unmanaged index that tracks the performance of 500 widely held large-capitalization U.S. stocks. Individuals cannot invest directly in an index. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3,000 Index, and is not and is under no circumstances to be construed as an offer to sell or buy any securities. The Russell 2000 Index represents the very small percentage of the total market capitalization of the Russell 3000 Index. It is used to determine the Russell 1000 Index, and is considered to be the most representative of US Equity Small and Mid-Cap performance. Dow Jones Industrial Average Index (DIA): The oldest continuing US market index, includes 30 “blue-chip” US stocks selected for their history of successful growth and wide interest among investors. It is called an average because it originally was computed by adding up stock prices and dividing by the number of stocks. This methodology remains the same today, but the divisor has been changed to preserve historical continuity. Dow Jones Transportation index is a US Stock market index from S&P Dow Jones indices of the transportation sector and is the most widely recognized gauge of the American transportation sector. It is the oldest stock index still in use. It is a price weighted index of 20 railroad, trucking and airline stocks. NASDAQ Composite Index (NASDAQ): A market-value weighted index that measures all NASDAQ domestic and non-US based common stocks listed on the NASDAQ Stock Market. The Omega Group is a program through Oppenheimer & Co. Inc. It offers a fee-based managed money program in which experienced Financial Advisors act as portfolio managers for their clients.

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