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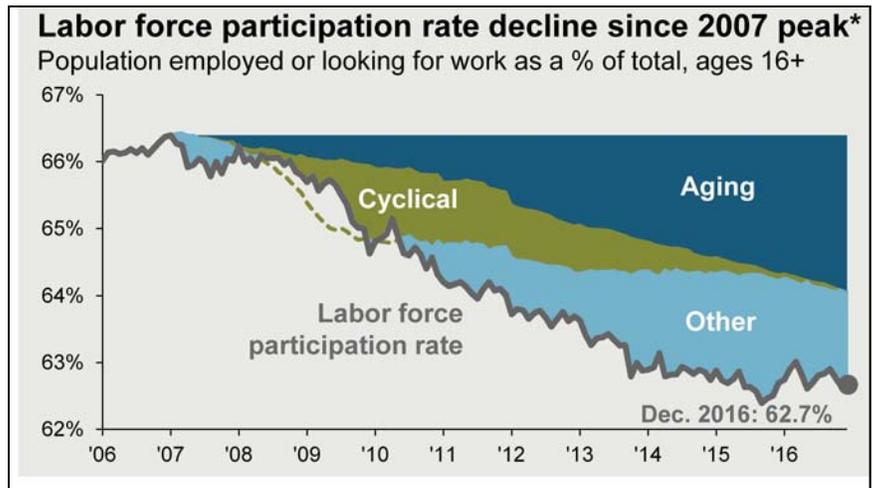
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**Spring Ahead...indeed**

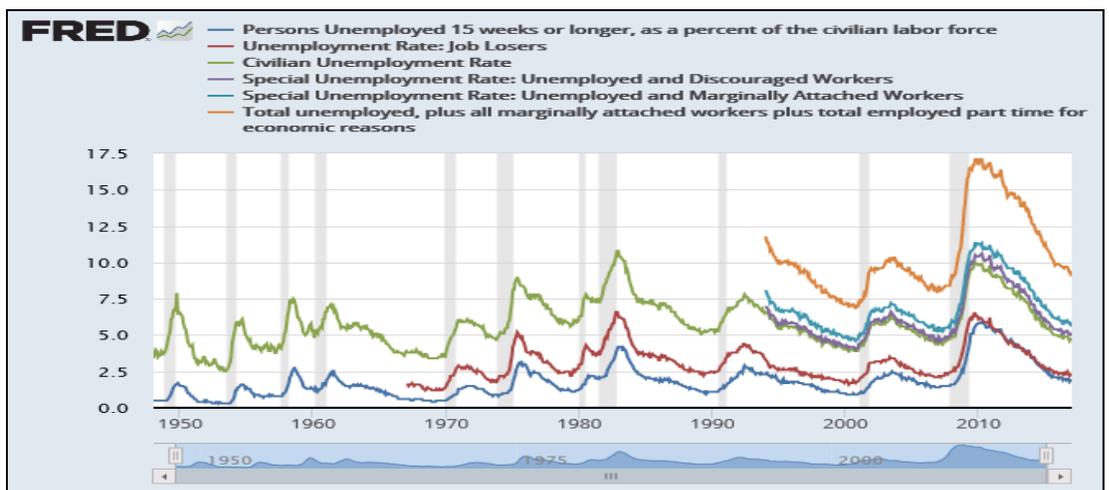
The Fed finally made good on its promise to soon begin hiking interest rates. The recent quarter point rise should be viewed as a good thing. The markets took that position, rising significantly after the announcement. The underlying theory is that when the Fed does begin to raise rates it generally means that they see good things occurring within the economy. Housing has picked up a bit. Spending was stronger and job creation was a bit above trend. Let's focus on that for a moment.

We have long said that you need ample fuel to spur economic growth. That fuel in its most basic forms consists of cash and humans. We know all too well that there is plenty of cash, and the rumored repatriation tax obliteration could well bring trillions home. But the human side is where concerns have focused. When you have a stated U3 unemployment number sub-5%, you have to ask the question as to whether you have the requisite number of humans to fuel future growth. We postulated often that the U6 unemployment number, which still hovers close to 10%, coupled with a participation rate of around 62% (about a 40 year low) could well mean that there is a somewhat hidden future reserve of human capital available for the growing needs this aforementioned stimulus would seek.

The Feb jobs report gave us our first clue. Well over 200,000 jobs were created, yet the U3 unemployment number rose. How does that happen? Some folks actually returned to the labor force, putting the first meaningful dent in the number of people that simply left the workforce.



Source: BLS, Factset, J.P Morgan Asset Management



That was reassuring to the future expectations of GDP growth.

Congress is working feverishly on a health care bill to replace the ACA. Why not taxes first? It's their fault. They created a process called reconciliation that offers a bill a lower vote percentage threshold to pass if an offsetting savings is garnered to avoid adding to the deficit. Hence the desire to save some healthcare money prior to pushing the tax plan forward. It would pave the way to a 51 vote passage runway.

Consumer confidence, since last November has continually climbed. If you'll recall, the past 8 years have been a much unloved recovery. Tough to say if GDP growth of under 2% made it unloved, or "unlove" made GDP growth of under 2% happen. Probably both. Cash and humans may be the tools to make growth happen, but don't discount desire in the short run. Confidence makes people and businesses want to act. They often deferred. Paying down debt in lieu of new spending, postponing expansion when forward clarity was absent. The climb since last fall has resulted in a confidence number that hasn't been at this level since 2001. Obviously some things are changing. Mario Gabelli was recently interviewed and said something on point, "we are becoming a country that welcomes capital"... Think about that, particularly in light of what we saw in the last decade. Companies were buying foreign counterparts, based in friendlier tax zones, to "invert". What was the government's reaction? Lets punish them. Think about that even more, I'm going to punish you until you like me...parenting like that of course makes you want to run away from home. Bill Clinton spoke of this often, "don't punish inversions, make America the best place to do business". Gabelli's point is aligned with that statement. The consumer confidence number may be highlighting this.

If the dominoes that must fall in place to make the aforementioned happen take longer than anticipated, that could result in interim volatility. It seems as though the market kind of expects some progress on tax reform by the end of Q3. Getting healthcare done could delay that, delays could cause the volatility. But in reality, as long as the eventual tax reform occurs, it will likely be volatility on a longer term upward trajectory. So far, we have seen anything but volatility. That has certainly been a surprise. In an environment where hyperbolics continue in the media, the market seems to have calloused over. We have not witnessed a market this quiet in terms of volatility since 1994.

And, speaking of artificial intelligence... A recent McKinsey report noted that about 51% of current job functions could be automated. We now know that truckers and drivers of every type are likely to be eliminated over the next decade or two. There are many other positions that are less complicated than aiming a multi-ton object in heavy traffic, on a cross country journey-our recent blizzard highlights that complexity, and so many other tasks will likely be the future purview of some bot. The economic challenges of this are many. Bill Gates recently said that robots should be taxed. That really means you redistribute the excess profits generated by using robots to fund the cost of the displaced workers. Some form of that is likely to occur. One Scandinavian country recently began experimenting with the concept of the "country wage", where every citizen is guaranteed a minimum cash-flow. This will likely become a hotter topic of discussion as we see the approachment of driverless vehicles. Till then consider the words of Elon Musk and Stephen Hawking, supporting the creation of the Asilomar AI Principles (global guidelines for managing the ethical development of artificial intelligence forms), success in creating AI would be the biggest event in human history, it could also be the last...our biggest existential threat.

Happy Spring!

We'll talk to you soon...

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<https://www.google.com/amp/observer.com/2015/08/stephen-hawking-elon-musk-and-bill-gates-warn-about-artificial-intelligence/amp/>