MONTHLY
NEWSLETTER

The Advisor

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PHYSICIAN INVESTMENT ADVISORS

I am happy to present this month's market commentary from our Investment Team. The goal is to give our clients and friends a simple way to see everything they need to know about the financial markets on a weekly basis, in 5 minutes or less. After all, investing should be simple, not complicated.

FALLING OIL PRICES

Watch the bouncing ball; that may describe oil prices in recent years. With incremental changes, Americans are at the point where we might not even pay attention anymore. It's only those trends that move the ball substantially, either up or down, that seem to catch our attention.

With that in mind, oil prices have mostly trended downward in recent months, reaching a 7-month low in mid-June. The reasons are many with catalysts in various parts of the world. In May, it was partially due to increased production in Libya and an oversupply in the U.S. That last reason may be a curiosity to many compared with the status quo only five or ten years ago. But, more recently, the U.S. stockpiles have remained resilient.

OPEC had cut production to bolster prices, but the move had not made a big dent in the global supply, which has kept prices in check. In early May, gas futures had hit a two-month low. Demand was slightly reduced as well. U.S. production has been stepped up and has offset the OPEC cuts. Also, with Libya producing 827,000 barrels per day, this has put the country's production at a three-year high.

What will the Near Future Hold?

The trend line for crude oil prices has hit three lows this year. Brent crude, the global benchmark for futures had slipped by as much as four percent by the end of May, with a price below $50. That was the third month in a row for losses.

Many corporations are also embracing alternative energy sources. This has helped to reduce demand somewhat.

Despite the recent trend, with oil down 8 percent through the end of May, some analysts still believe that we could see $60 barrel oil by the end of the year, while others see it topping out at $55. The consensus seems to be that there will not be any major trends in price movement unless some unexpected geopolitical event occurs.

U.S output might be the big story, with production climbing to more than 9.3 million barrels a day as of late May. That production level puts the U.S. close to top producers Saudi Arabia and Russia. This is in light of OPEC's production cuts and the support of some non-OPEC oil producers who are cooperating with the organization. Industry experts expect that U.S. production will grow by 1.5 million barrels next year.

In the meantime, consumers are getting a respite as complete control of oil prices is taken out of the hands of the producers in the Middle East who have been the traditional arbiters of price. This trend should benefit

Americans into the future as long as U.S. production can play a role. For now, those surplus margins are shrinking, so we can expect to see the potential for some upward movement in the short term.

THE FAANG STOCKS MAY STILL HAVE FANGS

The Internet hasn't only changed the way people communicate, check on financial accounts or study for school projects; it has brought great wealth to certain companies and their stockholders. Whether they are in the social media realm, in entertainment, online product sales or make the devices we use to access the Internet, most have reflected the explosion in this new technology.

FAANG stocks, a term presumably coined by well-known stock promoter Jim Cramer, describes five tech stocks that have had tremendous growth in recent years — Facebook, Apple, Amazon, Netflix and Google (Alphabet). These five stocks account for 11.9 percent of the S&P 500's market capitalization.

The stocks had all had great success since their initial offerings and continued that trajectory during the rally after the inauguration through March. Then; something happened. First, during the week of June 5th to 9th, 2017, several of the stocks hit new highs.

Call it a correction, but the trajectory then hit a bumpy road for a time. On Friday, June 9, 2017, alone, each stock within the group closed down 3 percent or more on high volume. The stocks fell again the following Monday on June 12th. Some analysts were labeling this pull-back the "tech wreck."

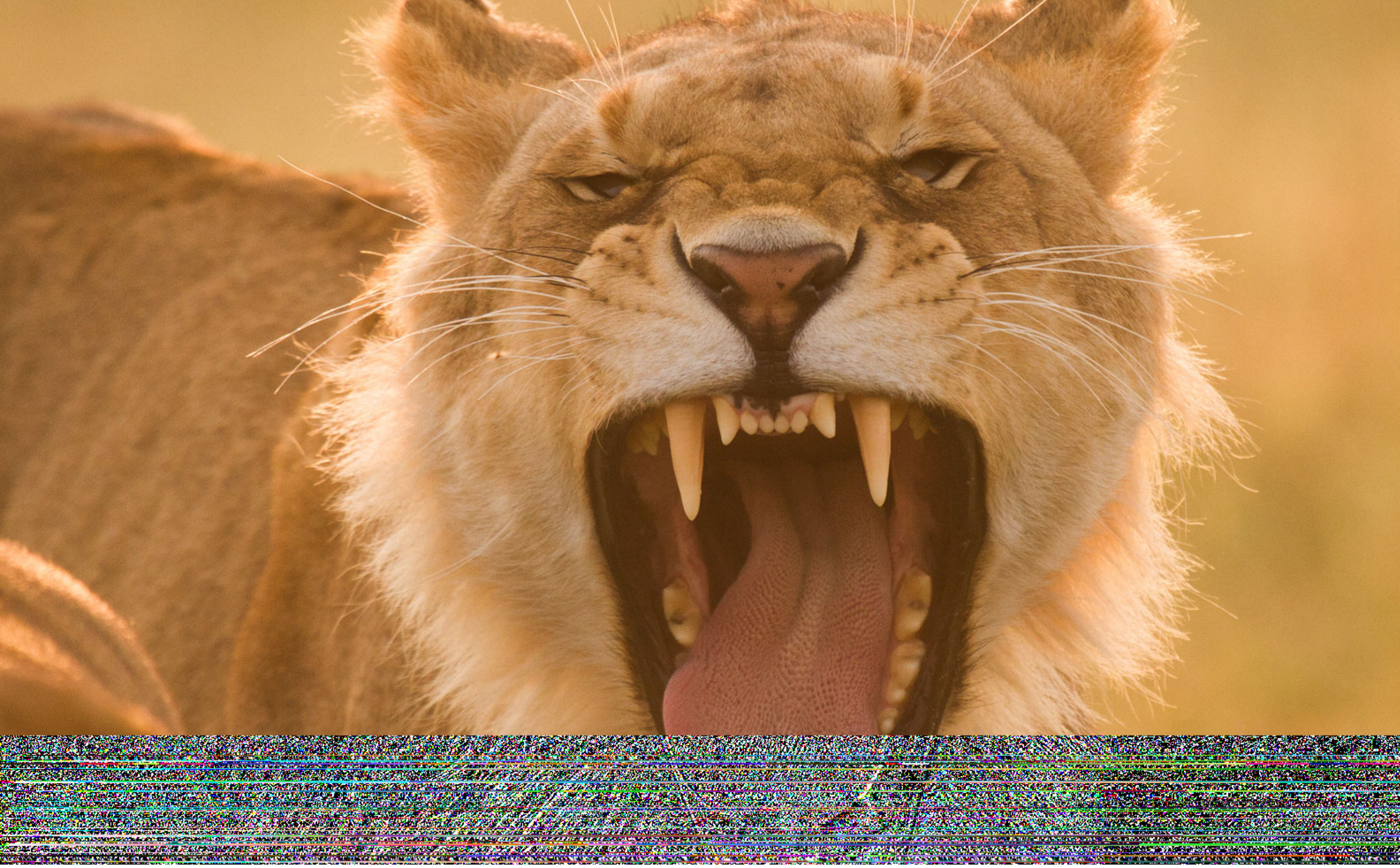
The forward-looking PE's of each of these stocks varies wildly. They do not fit one mold. So, to speak of the group as one entity is not accurate. That being said, their performance has brought focus to the group.

Tech Today versus Tech 2000

Their pullback may not be a surprise. Maybe investors thought it was a good time to take profits. But, to try to draw any conclusions, about five stocks in different markets with different business models, may be an exercise in futility. During the tech bubble, and it's build-up, of the late 1990s and 2000, the PE ratios became so high that most of the tech stocks simply were an illogical investment. With some of these FAANG stocks, the PE ratio seems to be too high.

Some analysts tried to draw a comparison between the current sustained rally in tech stocks and the environment that existed in early 2000.

But, much of the hype about the decline might be overwrought. Liz Ann Sonders, the Chief Investment Strategist at brokerage firm Charles Schwab, said that it might surprise many people that "none of them were even



in the top 30 best performers within the S&P 500 at the recent market peak," speaking of the FAANG stocks.

She also pointed out that two of the stocks, Amazon and Netflix, are considered consumer discretionary stocks and not even in the tech sector.

Much of the recent ballyhoo has not only been about the FAANG stocks, but about the tech sector in general. The more recent rally in the tech sector has restored it to its peak in 2000. That means that in more than 17 years, the sector is now flat as of now based on the S&P 500s tech sector. Small and mid-cap tech stocks have out-performed the index.

Retail investors own two-thirds of the shares of the FAANG stocks. This means that the recent price movements can be as much out of emotion and an eagerness not to leave money on the table. With institutional investors, in contrast, the movement would have been more likely the result of computer models that look at technical or fundamental factors. Some pundits did suggest that it was programmed trading that at least started the pull-back.

It should be noted also that the Dow had five record highs in the seven trading sessions since the pull-back in the FAANG stocks on June 9th , and on June 19th, the tech sector rebounded up 1.7 percent; the biggest one-day gain in six months for the sector. Sectors are often cyclical.

It may be that the FAANG stocks haven't lost their bite yet.

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K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He’s a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.