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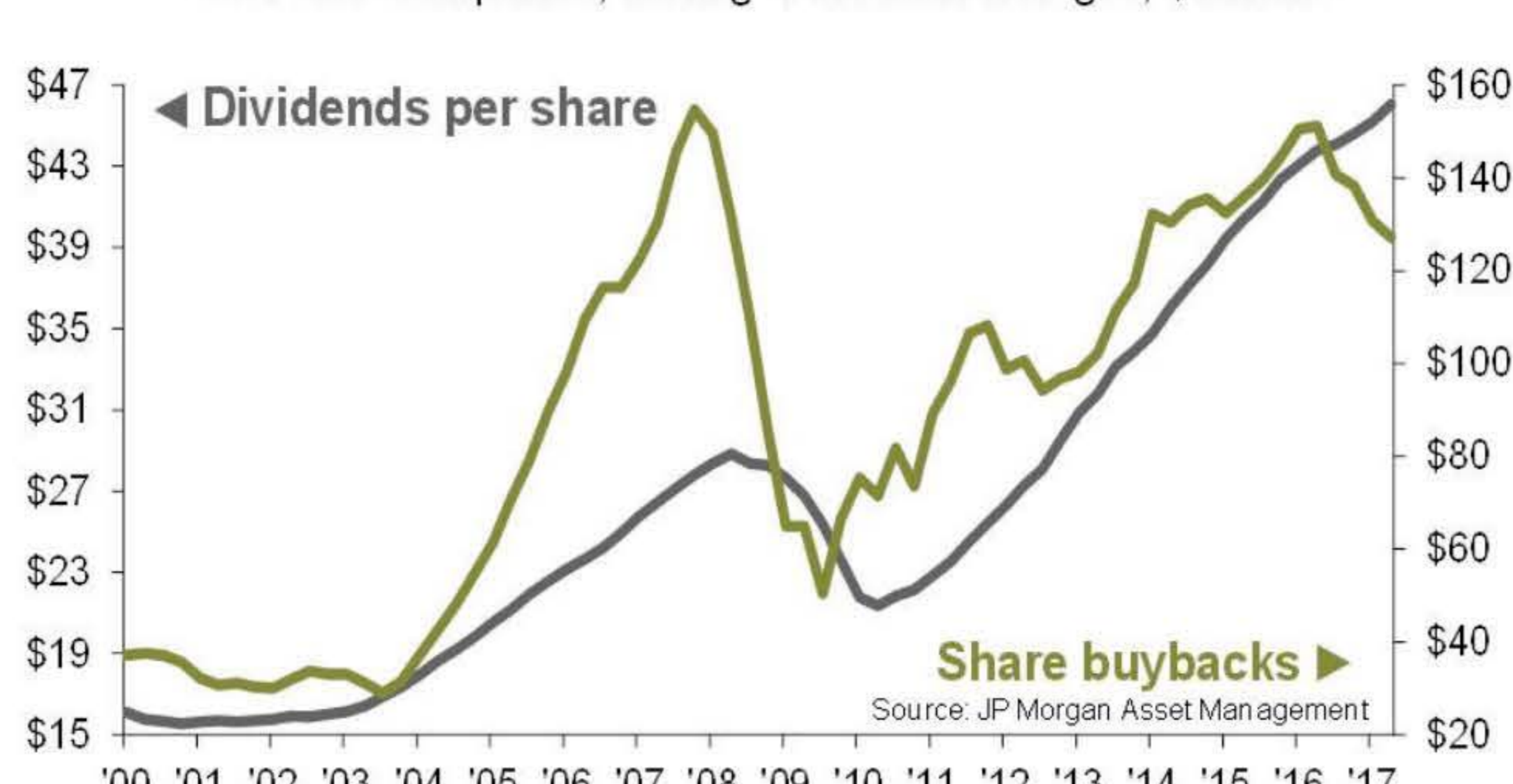
Market Insights
November 16, 2017

Capex Spurs the Bull

One of the complaints about earnings growth since the 2008 recession is that some of it may be attributed to "financial engineering." Corporations report earnings per share (EPS). One way to increase EPS is to buy stock (shares) back. This reduces the denominator of the earnings/shares equation which increases EPS.

Share Buybacks and Dividends

S&P 500 Companies, Rolling 4-Quarter Averages, \$ billions



A reduction of share count to increase EPS is not the same as revenue growth. Share buybacks can make earnings per share grow although the company is experiencing no sales growth.

In the hierarchy of growth that investors want to see and are willing to pay for, revenue growth is king. For example, Amazon (AMZN) reported its third quarter earnings on October 26. Net sales increased by 34% year-over-year. Operating income decreased by -40% year-over-year and EPS was flat at \$0.52.

At market close on October 26, AMZN was \$972.42 per share. Amazon then reported the earnings results described above. The stock is now trading at about \$1,125 per share, up nearly 16%.

Why, you may wonder, would AMZN appreciate by 16% when operating earnings are down -40% and there is no EPS growth? Fundamentally, it is because the company has strong sales growth and is investing in a diversified set of business activities which look to keep real growth strong for years to come. Investors believe that eventually there will be enormous profits on giant revenues.

For the S&P 500, it looks like earnings expanded by 9.5% year-over-year in the third quarter. It was the fifth straight quarter of positive earnings growth. Earnings growth tends to lead capital expenditures which tends to create revenue growth. What the first chart above and the chart below show is that buybacks are slowing and capital expenditures are picking up. This should be viewed in a positive light, as it signals that companies are focusing more on investing and growing their business over the long-term (revenue growth), as opposed to reaping short-term EPS benefits of buybacks.

Capex and Manufacturing On the Rise

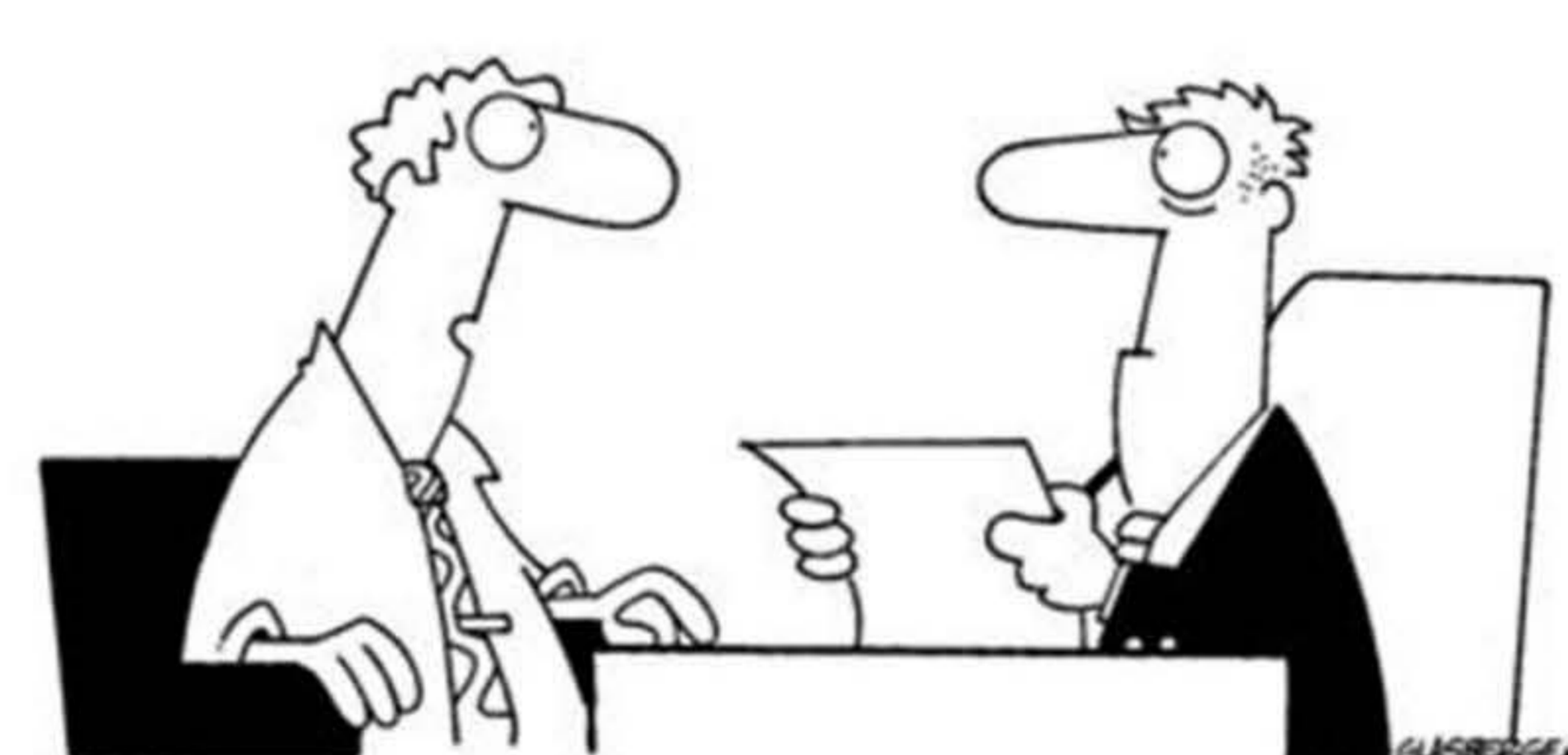
Diffusion Index, 3-Month Moving Average, Seasonally Adjusted



As the expansion ages and return expectations fall, capex is one metric that if it remains positive, could significantly extend the secular bull market.

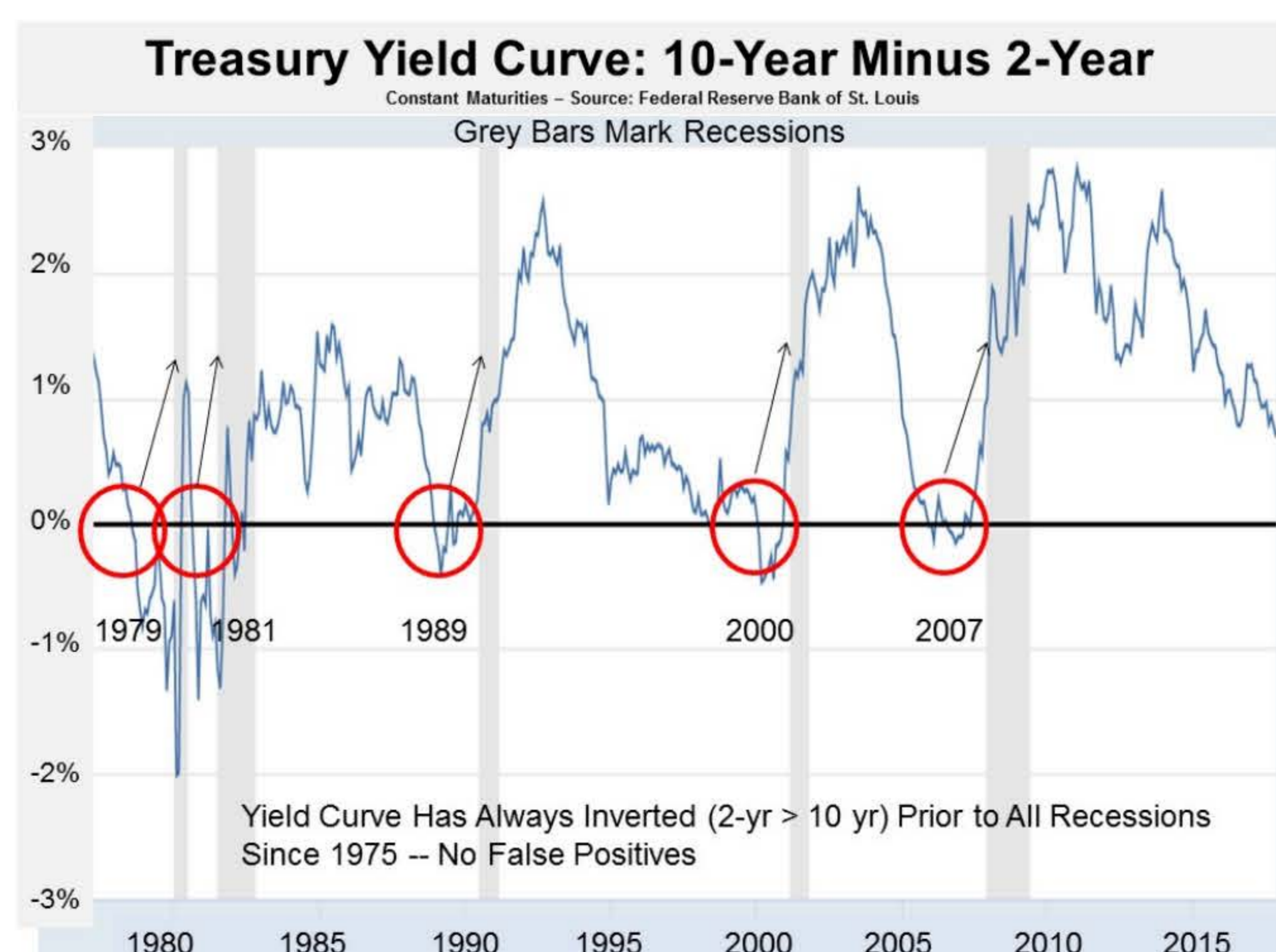
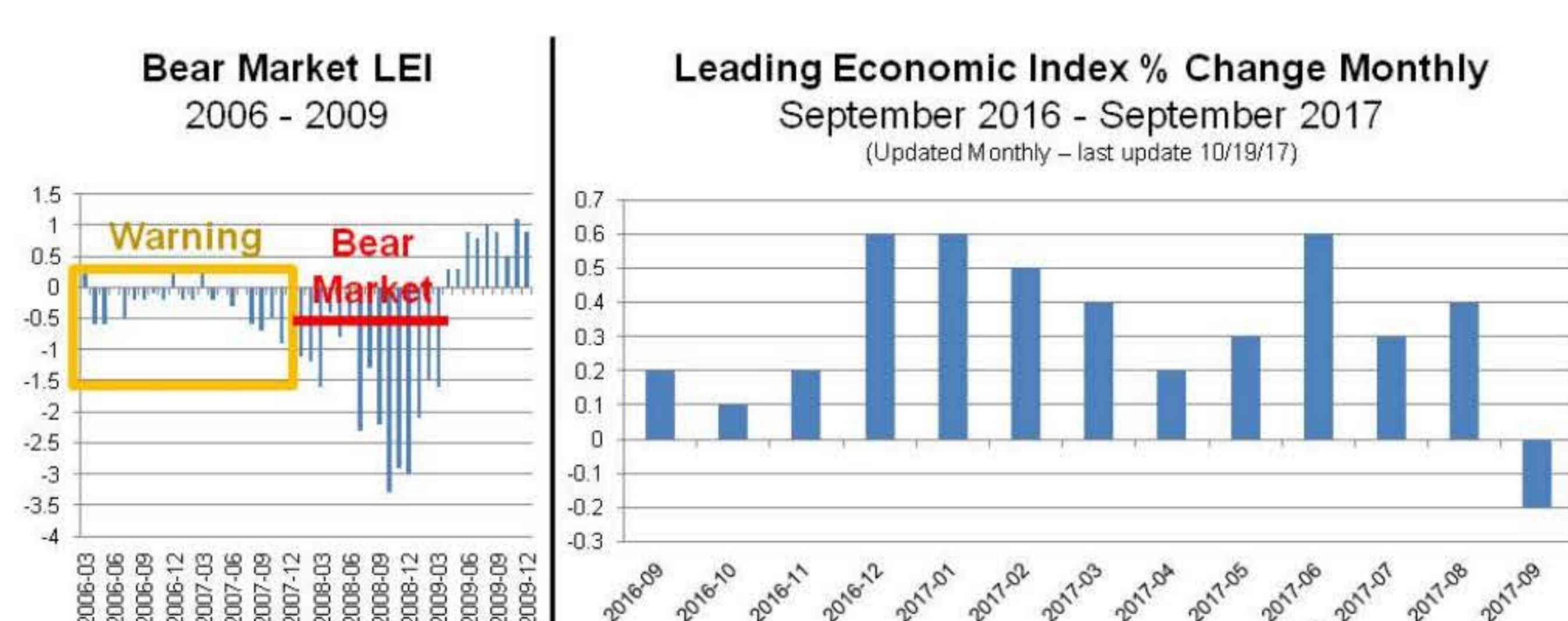
As we approach 2018 and consider adjusting investment allocations for the New Year, we invite you to give us a call at (415) 249-6337, visit www.uscapitalwm.com or email us at info@uscapitalwm.com if you have questions about how we can assist you in managing your investment accounts.

INVESTMENTS AND FINANCIAL PLANNING



"Explain to me again why enjoying life when I retire is more important than enjoying life now."

US Capital Wealth Management Stock Market Dashboard



MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

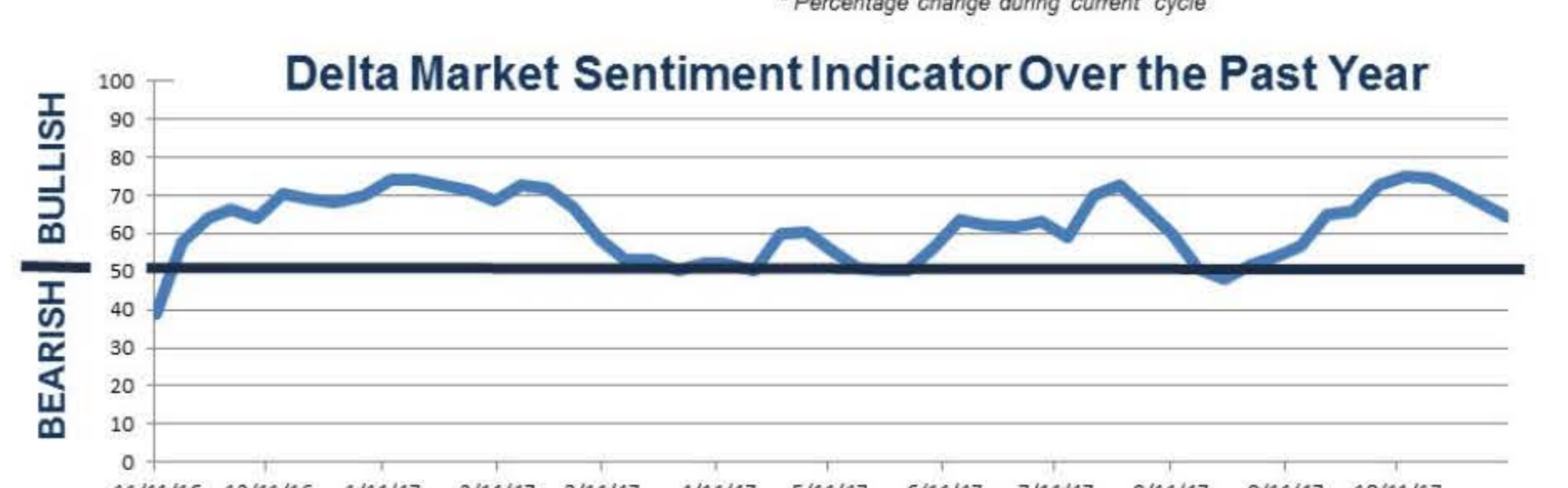
64.6

Our technical indicator decreased this week from 68.2 to 64.6

INDICATOR STATISTICS

Consecutive Bullish Weeks:	52
Cycle Inception Date:	11/15/2016
Range:	47.9 - 74.9
Mean:	62.5
Bullish Weeks YTD:	45
Bearish Weeks YTD:	0
*S&P 500	18.1%
*DJIA	24.0%
*NASDAQ	26.3%

* Percentage change during current cycle



Delta Market Sentiment Indicator (MSI) is published weekly in [Barron's](#)

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