The *Investment* House LLC

The Investment House Quarterly: Sep. 30, 2017

Index %	YTD '17	2016	2015
S&P 500	**+14.24**	**+ 11.96**	**+1.38**
Barclays US 20+ Yr Treasury	**+6.26**	**+1.43**	**-1.59**

Source: Morningstar

Tax Plan(s) and Earnings

With so much debate and speculation regarding the likelihood and potential effects of various tax plans, it's easy to miss the point that any and all tax reductions are unambiguously positive for corporate earnings.

As the table below illustrates, the earnings benefits from various plans range from a low of 6.1% to a high of 16.7%. Virtually all plans substantially increase projected S&P earnings.

Tax Reform Scenario Impact on EPS

		Trump Plan	Other Potential Tax Scenarios		
		15% Rate	25% Rate	27.5% Rate	30% Rate
A	S&P 500 Base Case EPS (no policy reform)	$132.00	$132.00	$132.00	$132.00
B	Benefit from Lower Tax Rate	+ $20.70	+ $11.40	+ $9.10	+ $6.80
C	Border Adjustment Tax (BAT)	--	--	--	--
D	(+) Total Benefit from Tax Reform (B + C)	+ $20.70	+ $11.40	+ $9.10	+ $6.80
E	**S&P 500 EPS (pre-buyback) (A + D)**	**$152.70**	**$143.40**	**$141.10**	**$138.80**
F	(+) EPS Benefit from Repatriation Buybacks	+ $1.40	+ $1.30	+ $1.30	+ $1.30
	S&P 500 EPS (post-buyback) (E + F)	**$154.10**	**$144.70**	**$142.40**	**$140.10**
	EPS Upside ($/sh)	*+ $22.10*	*+ $12.70*	*+ $10.40*	*+ $8.10*
	EPS Upside (%)	*+ 16.7%*	*+ 9.6%*	*+ 7.9%*	*+ 6.1%*

Source: J.P. Morgan US Equity Strategy & Global Quant Research

Furthermore, even in regions outside of the U.S. – which are not expected to benefit from local tax policy reform – the earnings forecast appears robust, with MSCI World earnings expected to grow over 9% in each of the next two years.

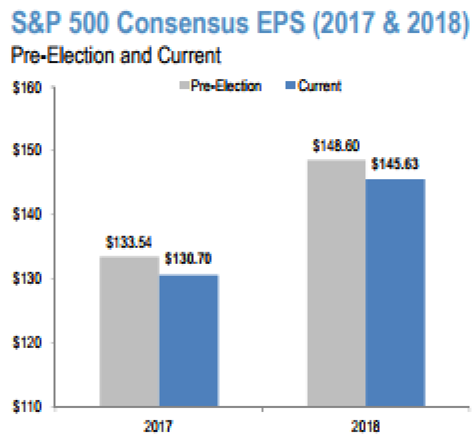
Figure 1: Global Earnings Growth Remains Intact

US vs. Developed Markets

	Current			Current vs 3Months Ago		
	2017	2018	2019	2017	2018	2019
S&P 500	**10.9%**	**11.2%**	**9.3%**	**-0.5%**	**-0.7%**	**-0.1%**
MSCI World	**12.4%**	9.6%	9.4%	**0.6%**	-0.9%	-0.3%
MSCI Eurozone	**11.3%**	8.5%	8.8%	**0.5%**	-0.8%	-0.2%
MSCI EM	**20.4%**	12.5%	—	**0.1%**	1.4%	—
MSCI UK	**19.5%**	6.5%	7.7%	**0.4%**	-0.6%	-1.4%
MSCI Japan	**15.8%**	5.7%	8.3%	**3.4%**	-1.6%	0.8%

Source: J.P. Morgan US Equity Strategy & Global Quant Research

While it has recently been common to assert that this positive trend growth is already "baked in" to prices, current consensus forecasts show the opposite. In fact, it appears that expectations have actually declined slightly since the election.



Such a scenario leaves plenty of opportunity for finding great companies at attractive prices, thanks to what appears to be broad – based skepticism. As ever, we will continue to hunt for and find such companies, and look at the details of corporate facts rather than the just the headlines of the day.

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