

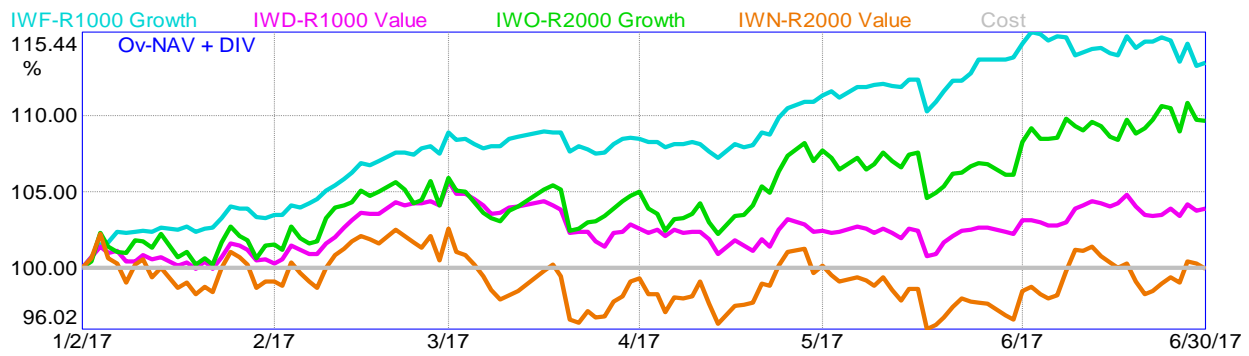
July 2, 2017



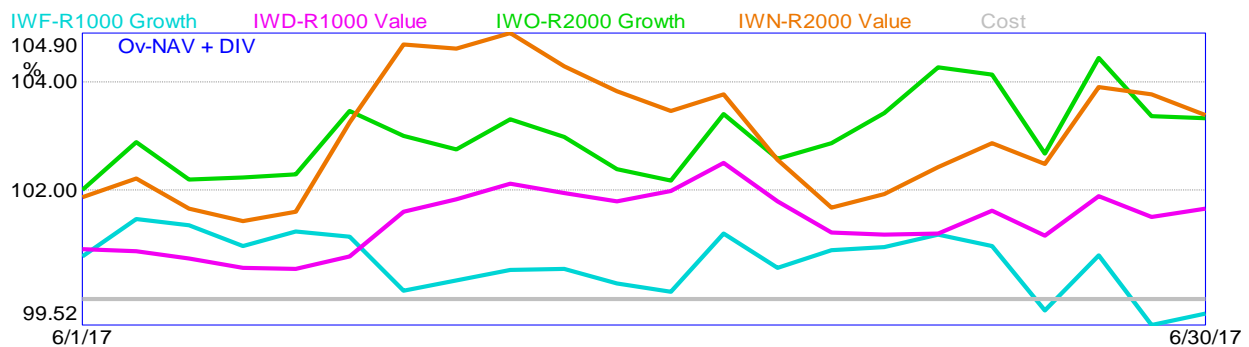
Clients,

The pace of business and economic disruption is increasing and pervasive. There was a time when labor, capital and natural resources were the means of production. Not so much any more, which is part of the reason it is harder to find returns on capital. Business growth and stock market returns are increasingly concentrated in large companies that become large because of their ability to grow quickly and scale. These are companies like Amazon, Google, Apple, Facebook and even Tesla. Rather than labor, capital or natural resources, the critical ingredients are information and innovation giving higher fixed costs to gain share and then very low or non-existent variable costs per unit. Equity appreciation is increasingly concentrated in the largest companies, this being accelerated by the momentum of indexed buying.

We can see this when we compare changes in large cap/small cap and value/ growth as exemplified by the Russell 1000 and the Russell 2000 for value and for growth.



Year-to-date the large cap growth (IWF) is up 15% while small-cap value (IWN) is about flat. However, the market has been changing over the last month with large cap trailing and large cap growth going from the top to the bottom.



Everything reverts to the mean. Upward trends last only so long before we get a reversal. Is it time for catchup? Value stocks as a whole have been waiting their turn several years.

I discovered all this and more at a very concrete level over the last couple weeks. My daughter and I were traveling to the Black Hills to spend time with my brother and his family when the engine went out in the middle of South Dakota. It was a European car (note the past tense), made by a manufacturer that I believe was recently the world's largest and now faces a crises of integrity. The engine also went out a year ago and

(over)

An alternative to mutual funds.

Lee Wenzel
(952) 944-2699
Lee@WenzelAnalytics.com
www.WenzelAnalytics.com

Wenzel Analytics, Inc.
Registered Investment Advisor
8666 Westwind Circle
Eden Prairie, MN 55344

salvage engines are going at a premium, so that tells us something. After we and the car were hauled 115 miles to Rapid City, we rented a car that a week later brought us back to Eden Prairie.

It was time for the discoveries of car shopping. I was amazed at the amount of information available to the shopper. The industry has changed. Dealer pricing with expectations of having to negotiate down, posts to the world a price too high to get anyone in the door. A negotiated price is a hidden price while a listed non-negotiable price facilitates the information age.

First on the agenda was to buy a car for Jan, since we didn't want her to have our stranded experience. We found that the superior features, comfort, reliability, value and solid feel were to be found in a U.S. brand rather than European or Japanese. Times have changed. And the brand on the dash was a surprise – Microsoft. I remember sixty years ago on a family vacation touring the Rouge and learning how Ford was a steel company. Well the vertical integration has given way to an information company. Ford is still the steel company and only the ephemeral name on the dash display screen. The name on the dash is Microsoft, although I'm not sure how much of the software is from Ford and how much from Microsoft. The hybrid technology introduces dramatic changes in the underlying technology, handling and economy. Not being able to find something else we liked as well, two days later we bought another one of the same car for me, this one not only a hybrid but a plug-in as well. The eleven miles home from the dealer had average miles per gallon of 256. (The car is programmed to run the engine if not refueled in eighteen months in order to avoid stale gas.) The price for the cars, warranty and fuel brings the annual cost of ownership for each car to less than ten percent of what it was on my European car over the past five years. So I repeat that the pace of business and economic disruption is increasing and pervasive. And I would add that brand and integrity are ever more critical to success. It's true for car companies, all the companies that scale so quickly (up or down), and also how I stay in business.

As for the broader economy and markets, many of us are troubled by our President's actions, including the paucity of economists in the administration. However, the impact on the markets of government actions and inactions is not as direct as commonly believed and portrayed. I continue to see risks in the longer term, but not in the immediate future.

I'm doing research on high-return portfolios that avoid the vulnerabilities of market swings. Such portfolios are not for everyone. I'm quite comfortable with our High Income portfolio offering optimum returns with minimal risk, and with the other two Tested Source portfolios, those being the Investment Advisory Service and Nate's Notes. I'm still waiting for gold to rebound, although it is taking while. My picking of single stocks based on a persuasive logic is doing well. I recently bought four homebuilders in my personal account, and they are doing well. If you are interested in more aggressive, less validated portfolios, let me know.

Thanks for your trust in my work.

Sincerely,

Lee