LIBERTY CAPITAL MANAGEMENT

QUARTERLY OUTLOOK

Vol. XXVIII - Number 1 First Quarter 2020

The Economy

The 2020 Economic Outlook Remains Fairly Optimistic

The US Economy

For the U.S. economy overall, most economists expect growth of 2% in 2020, compared to an expected 2.3% in 2019 and 2.9% in 2018. Business spending in the U.S. has been softened by uncertainty about a trade deal, the fallout from Brexit, and anxiety over the presidential election. But with unemployment at decades-long lows, consumers, who account for the bulk of the U.S. economy, remain a strong foundation. The Federal Reserve does as well, which has cut short-term rates three times since June.

The U.S. economic outlook is healthy according to key economic indicators. The most critical indicator is the gross domestic product, which measures the nation's production output. The GDP growth rate is expected to fall below the 2% and 3% ideal range. Unemployment is forecasted to continue below the natural rate. Inflation or deflation is minimal. That's close to a Goldilocks economy.

U.S. GDP

U.S. GDP growth is expected to slow to 2.0% in 2020 from 2.2% in 2019 as well as slow to 1.9% in 2021 and 1.8% in 2022. That's according to the most recent forecast released at the Federal Open Market Committee meeting on December 11, 2019. The projected slowdown in 2019 and beyond is a side effect of the trade war.

Unemployment

The unemployment rate should average 3.5% in 2020. According to TD Economics, perhaps the most encouraging trend in the U.S. economy is the sustained improvement in labor force participation among core-aged Americans. This has occurred despite heightened business uncertainty and slower economic growth. Participation rates for women have made rapid gains. In particular, the participation rate for young women (aged 25-34) has reached an all-time high (although a significant gap remains when compared to men of the same age range). In contrast, participation rates remain depressed for certain groups, primarily younger males. Despite these challenges, the share of core-aged individuals working full-time is nearing a record, which offers a key support to income growth going forward.

Inflation

Inflation should average just under 2% in 2020. Despite tariffs and low unemployment, the Fed’s preferred inflation measure has not sustained the 2% target this cycle. Other measures of underlying inflation trends, which strip out the most volatile price changes rather than just food and energy, are running closer to 2%. However, there are few signs that inflation is about to break higher or lower.

Bottom Line

Is 2020 a year of opportunity or are there challenges ahead? No one knows for sure, but we at Liberty Capital Management think it’ll be a bit of both. As we have said many times, it's valuable to consider what could impact markets, while at the same time not actively seeking to structure our investment strategies to take advantage of short-term market shifts. Rather, we seek to build portfolios that give our clients the best opportunity to achieve their long-term investment objectives.

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Fixed Income
Why Invest in Bonds?

Why invest in bonds? We hear this question from time to time, and many investors even ask themselves this whenever stocks have historically large returns. Bonds and other fixed-income investments offer many reasons to have an allocation of your portfolio in this asset class.

Bonds provide a reliable stream of income. Even when prevailing rates are low, investors still have plenty of options to construct a portfolio that meets their income needs. A diversified bond portfolio can provide decent yields with a lower level of volatility than equities and with a higher income than money markets.

"As many of the economies around the globe push rates lower, it may force the Fed to keep pace or suffer the consequences of the U.S. corporations not being able to compete."

Bonds offer the diversification a balanced portfolio needs. Like many say, don't put all your eggs in one basket. It may be an old phrase, but it is time-tested wisdom, nonetheless. Greater diversification can provide investors with better risk-adjusted returns than portfolios with a more narrow focus. Bonds can help reduce volatility and preserve capital for equity investors during times when the stock market is falling.

Bonds can preserve principal. Fixed income investments are very useful for investors who are nearing when they will use some of their invested funds such as an investor who is nearing retirement or a parent/grandparent who has been putting away funds for a child's college. As investors move closer to their goals, decrease the allocation to equities and move funds into bonds with shorter maturities.

For certain accounts, bonds possess tax advantages. The average taxpayer doesn't have many deductions available after recent tax law changes. Interest on municipal bonds is tax-free on the federal level and, for investors who own municipal bonds issued by the state in which they reside, on the state level as well. Also, the income from US Treasuries is tax-free on the state and local levels.

Although discussing bonds at parties or out with friends and family isn't the most exciting table talk, nor do they receive the proportionate coverage in the financial press relative to stocks, bonds and other fixed income investments have a useful position in a balanced portfolio.

To recap, the 10- year US Treasury note had a rollercoaster year, starting out in 2019 yielding about 2.70%, then dropping to a low of 1.46% in early September. It finished out December at 1.90% after three rate cuts in the Federal funds rate. In 2020, we anticipate the Federal Reserve is likely to sit on their hands for awhile and see how the economy responds to their rate cuts from last year. We don't expect much change in rates for the much of the year.

Equity Markets
A Look Back and a Step Forward

U.S. stocks finished 2019 near record highs. Our previous 2019 Equity Market commentary headlines in each respective quarter were: This Is What a Correction Looks Like, One Quarter Later, The Market Loves to Climb a Wall of Worry, and Same Story, Different Day.

"We maintain our current viewpoint that the equity markets still have some room to go."

A major key to investing and growing wealth--sometimes difficult to do--is to stay invested in the markets in all circumstances. This was extremely challenging this time last year as we were coming out of a correction that some said was a recession. Investors who had a 100% allocation in stocks would have missed out on an upside of about 30% if they stayed in cash throughout 2019.

For the record, the DJIA, S&P 500, and NASDAQ indices were up for the third quarter 6.02%, 8.53%, and 12.17%, respectively, and for the year were up 22.3%, 28.9%, and 35.2%.

Another key to equity investing is to maintain sector and individual holding diversification throughout the business cycle. Just this past year, information technology performed the best of any sector while energy performed the worst. Liberty Capital's GARP strategy and stock screening process pointed toward a heavy weighting for info tech and an underweighting for the energy sector.

We predict upcoming volatility in the equity markets for 2020 as there are events that could move the markets, including the ongoing international trade talks, especially with China, and the upcoming elections in the back half of 2020. The VIX, otherwise known as the Volatility Index or "fear index", generally spikes on down days and is a good measure of the amount of fear in the market. The VIX finished up the year fairly close to a 52-week low which is a good sign entering 2020.

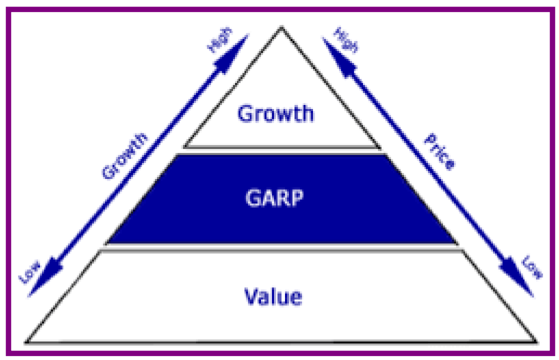
As we mentioned earlier and remind our clients frequently, staying invested through thick and thin is a research-proven strategy to achieve maximum returns. We maintain our current viewpoint the equity markets still have some room to go. We continue to focus on fundamentals, data, and headlines we believe matter.

GARP Strategy

A Look Into the GARP Strategy We Use

Since being founded in 1993, Liberty Capital has adhered to a well-proven equity strategy that has produced for our clients long-term growth with less volatility over a market cycle.

Growth at a reasonable price (GARP) is a combination of both growth and value investment strategies. Legendary Fidelity fund manager Peter Lynch popularized GARP investing in the 70's and 80's. The GARP style seeks to invest in companies that have had long-term positive performance and also positive projections for the upcoming years. Ideally, it would have above-average potential of future earnings and revenue growth greater than its peers in its industry group but also trades at a lower price than its fundamental analysis indicates.



More specifically, we look for companies that exhibit the following fundamentals:

P/E Ratio: This compares share price to earnings. The higher the ratio the higher the expectation of growth potential. Should those expectations not be met, the potential drop in the share price is far larger. To avoid this volatility, GARP looks for ratios lower than the company's historical average P/E or in line with its peers in its industry.

“The GARP strategy we employ and the selection and monitoring of the stocks in portfolios have rewarded our clients handsomely over these many years.”

P/B Ratio: This compares share price to the company book value (Assets-Liabilities/Outstanding shares). GARP investing looks for lower P/B ratios as that tends to indicate greater value and a larger potential for profit when the market corrects itself and values the company properly.

PEG Ratio: This stands for P/E Ratio/ Projected Growth in Earnings. The lower this ratio the better as it indicates a company that is undervalued given its growth potential, hence growth at a reasonable price.

ROE: Return On Equity is a good indicator of a company’s financial performance. The higher the ratio the better.

Debt to Capital: A lower ratio indicates a company is less encumbered with debt and the interest cost. It also shows a company can be more flexible in a difficult economic environment.

Daily Trading Volume: Companies that have an average trading volume of at least 50K/day lessens price fluctuations due to large purchases or sales.

The firm’s Investment Advisory Committee uses these and other fundamental factors to form the basis of stock selection to our fully managed portfolios. The GARP strategy we employ and the selection and monitoring of the stocks in portfolios have rewarded our clients handsomely over these many years.

By the Way…Compliance Issues

Asset Mix

The asset mix decision, or the ratio of a portfolio’s balance between stocks and bonds is extremely important to the effective management of a portfolio and the client relationship. It is something discussed and agreed upon at the beginning of the relationship and should be reviewed periodically. Situations change: clients age, income becomes more important, time horizons change, etc. Have there been changes in your outlook or situation that should be reflected in your portfolio? Please contact us.

Thank You Clients From the Liberty Capital Management Team!

We are very grateful for your business because we realize we wouldn’t be here without loyal customers like you. We would just like to say thank you for being a part of our family. We appreciate the many referrals you have sent our way this year. It truly is the greatest form of flattery for us.

Kenneth J. Carbaugh ~ Charles L. Dettloff ~ Robert D. Foster ~ Spencer M. Lendzion

Focus On . . .

MICROSOFT CORPORATION (MSFT)

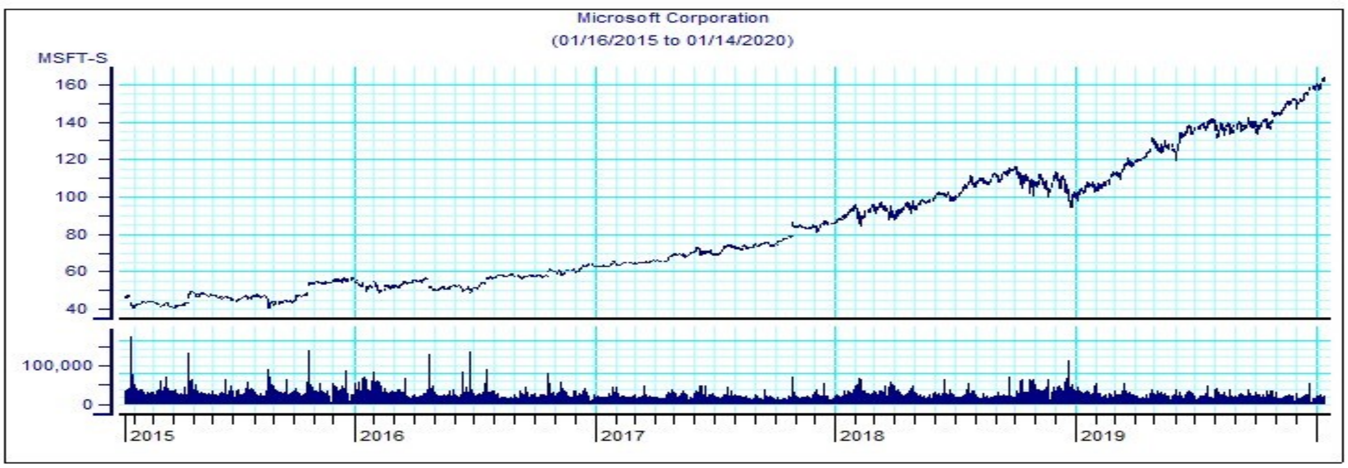
Microsoft Corporation develops, licenses, and supports software, services, devices, and solutions worldwide. The company's Productivity and Business Processes segment offers Office, Exchange, SharePoint, Microsoft Teams, Office 365 Security and Compliance, and Skype for Business, as well as related Client Access Licenses (CAL); and Skype, Outlook.com, and OneDrive. It also provides LinkedIn that includes Talent and marketing solutions, and subscriptions; and Dynamics 365, a set of cloud-based and on-premises business solutions for small and medium businesses, large organizations, and divisions of enterprises. The company's Intelligent Cloud segment licenses SQL and Windows Servers, Visual Studio, System Center, and related CALs; GitHub that provides a collaboration platform and code hosting service for developers; and Azure, a cloud platform. It also provides support services and Microsoft consulting services to assist customers in developing, deploying, and managing Microsoft server and desktop solutions; and training and certification to developers and IT professionals on various Microsoft products.

The Company (MSFT) has attained a growth rate of 15.40% over the past 5 years and is expected to continue to grow by 11.91% over the next 3-5 years. It boasts a solid ROE of 41.57% despite a low debt to capital ratio. This stock provides long-term stability and quality that Liberty Capital Management looks for.

Microsoft Corporation (MSFT)

MICROSOFT CORP
ONE MICROSOFT WAY
REDMOND WA 98052
PHONE: 425-882-80
www.microsoft.com

Jan 15, 2020	**$163.81**
Total Return - YTD	3.87%
Dividend Yld	1.25%
P/E	30.85



Capitalization

% LT Debt to Total Cap	38.53%
Owned by Institutions	72.37%
Market Capitalization ($Mil)	$1,249,675
Avg Daily Vol (Last 30 Days)	22,887,176

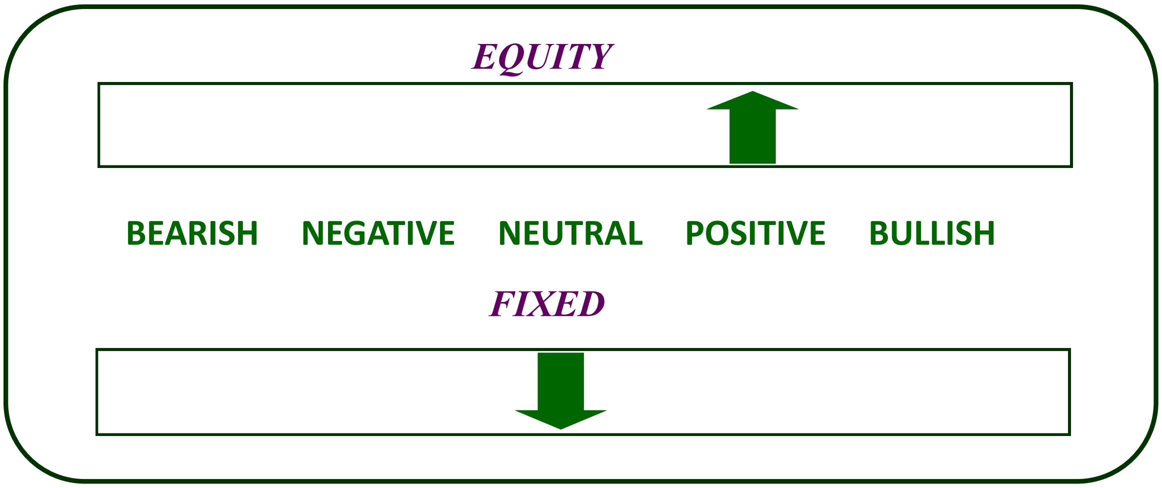
Business Overview

BRIEF: Microsoft Corp. develops and markets software, services, hardware, and solutions that they believe deliver new opportunities, greater convenience, and enhanced value to people's lives. The company does business throughout the world and has offices in more than 100 countries. Their mission is to enable people and businesses throughout the world to realize their full potential.They generate revenue by developing, manufacturing, licensing, and supporting a wide range of software products and services for many different types of computing devices. Their software products and services include operating systems for servers, personal computers, and intelligent devices; server applications for distributed computing environments; information worker productivity applications; business solutions applications; high-performance computing applications; software development tools; and video games. They provide consulting and product support services, and they train and certify computer system integrators and developers. They also design and sell hardware including the Xbox 360 gaming and entertainment console. Kinect

Earnings	$		%	Growth Rates
				5 Yr Historical
Latest Quarter	$1.38	up	21.05%	
Latest 12 Months	$5.31	up	121.25%	%
Zacks Concensus				**LT Future**
Current Quarter	$1.32	up	20.00%	
Current Fiscal Year	$5.36	up	5.93%	11.91%
Next Fiscal Year	$6.02	up	12.31%	
Revenues				**5 Yr Historical**
Latest Quarter	$33,055 Mil	up	13.65%	
Latest 12 Months	$129,814 Mil	up	12.97%	7.57%
Dividends				**5 Yr Historical**
Indicated Rate & Yield	$2.04		1.25%	
Increases Last 5 Years	5.00			9.78%

Key Ratios & Measures	5 Year Range*	Current
P/E	-	30.85
Price to Book	3.72 - 10.33	11.91
Price to Cash flow	10.54 - 20.48	24.13
Price to Sales* (5yr Avg)	5.95	9.77
Return on Equity* (5yr Avg)	24.73	41.57%
BETA S&P 500		1.39

MARKET BAROMETER



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- Even when prevailing rates are low, investors still have plenty of options to construct a portfolio that meets their income needs. A diversified bond portfolio can provide decent yields with a lower level of volatility than equities and with a higher income than money markets.
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~ Closing Figures as of December 31, 2019 ~

DJIA	**28538**	**10 yr. Treas.**	**1.92%**	**Funds Target**	**1.50% - 1.75%**
S&P 500	**3231**	**3 mo. T-Bill**	**1.55%**	**Prime Rate**	**4.75%**

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