

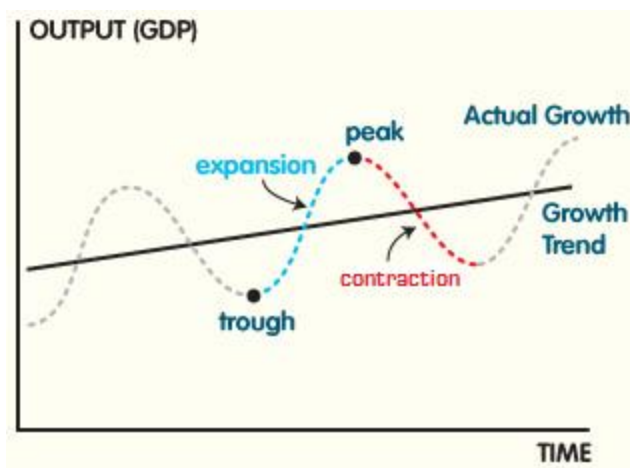
April 2018 Thoughts and Insights

“I can’t change the direction of the wind, but I can adjust my sails to always reach my destination.”
Jimmy Dean, American Country Singer and Businessman

In February the S&P 500 index experienced its fastest-ever 10% fall from an all-time high. Stock price volatility surged and the 10 year US Treasury yield touched its highest level since 2013. The number of days that the markets traded with a greater than 1% swing in this period alone was triple the times of all 2017. Just as volatility began to subside in mid-March, the White House announced targeted import taxes, also known as tariffs, causing the US markets to come close to re-testing their February lows in the last few days of the quarter. So what does all this mean to us?

Since the 2016 election, we have had many days when the market has moved based on news out of Washington, only to be reversed the next day. At DTIM, we have distanced our thinking from the “political noise” and maintained our focus on the fundamentals of the economy which have supported the stock markets and asset prices. Over the past year we have continued to see a healthy US economy, modest inflation pressures and positive earnings growth. As a result, we have maintained a strong equity bias in our portfolios and remained fully allocated to stocks all the while watching for any economic shifts.

However, the most recent data would suggest that the US economy has finally entered the late stage of the 9 year-long expansionary economic cycle, and we believe that we have reached the peak of the current expansion cycle (shown in blue in the chart below).



A few of the data points that I'm looking at that support this conclusion are outlined below.

- After 6 consecutive quarters of accelerating growth, GDP estimates are slowing.
- We have a new, untested Federal Reserve Chairman/staff that plan three more rate increases this year. At the same time the Fed will continue to reduce its balance sheet while the Treasury will be selling more bonds to fund larger deficits. These events, especially combined, will likely create inflationary pressures.
- The yield curve is flattening which means the 30 year bond is not rising as much as the 2 year note.
- Big Tech companies may soon be subject to more regulation which will, in turn, slow growth in the largest business sector of the economy.

This does not mean that a recession is just around the corner, but it does mean that we need to be prepared to invest in the next phase of the cycle which is called "contraction". The contraction cycle is characterized by slower growth and accelerated inflation.

As you all have heard me say many times, we believe that the key to successful investing lies in understanding your true risk tolerance and maintaining an asset allocation that is in line with those goals. Our investments participated in the expansion and many of our stock allocations have grown beyond our target ranges. This past week we did the hardest thing an investment manager does, we sold, lightening positions in Technology, Consumer Discretionary, Industrials and Materials. This will bring our equity allocations back in line with targets.

Stocks could continue to show strength through the rest of 2018, and some technical indicators suggest that we may break the recent highs. However, we do know this cycle is coming to an end and we prefer to make the call earlier rather than too late.

As we move away from the current growth cycle, we will bring our overweight's in Technology and Financial stocks back to a market weight, maintain our energy positions and look to enter a position in a REIT (real estate investment trust). We will also focus on fixed income investments and look for new opportunities as interest rates are rising. Since short rates are now near 2%, we will place the extra cash in purchased money funds with higher yields and be ready to deploy the cash when opportunities appear.

As always, we remain dedicated to serving your investment needs according to your goals. Please call or write with any questions or concerns you may have.

Michelle & Jim