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INVESTMENT MANAGEMENT
Money Managers You Can Trust

April 2017 Thoughts and Insights

The first quarter of 2017 will be remembered in the financial world for the inauguration of President Trump, the UK's signing of Article 50 officially starting the Brexit process, and the Federal Reserve raising its overnight lending rate for the third time since the Great Recession. And, how can we not forget that the Dow Jones Industrial Average broke 20,000 on January 25th and went on to break 21,000 on March 1st.

We believe that our job as your money manager is to first do our best to understand where the real risks and possible rewards are in the market and, in turn, seek to do our best to adapt the investments accordingly.

So, given the significant events listed above, the questions that we (and clients) have been asking are:

- What is the Trump impact on my money and should we be worried about the market at/near all-time highs?
- Should we be worried about rising interest rates?

The market experienced a significant rally in the first quarter due to expectations that the Trump Administration's pro-growth agenda and tax cuts would stimulate the economy. However, in late March we did have a minor pull back after the Republican effort to repeal Obama Care failed, which, in turn, has increased doubts about their ability to implement tax reform.

This rally, followed by a pullback is actually very healthy for the market. From a non-political, economic and technical point of view, this is an indication of a stable market in relative equilibrium. The market is moving within a range, with very little volatility.

So, even if the Trump "enthusiasm" has faded, we believe that the base case for equities is that the US economy is stable with low unemployment, strong corporate profits, strong consumer sentiment, and an expected GDP growth of 3%. What is unusual right now is how the politics may affect the market, as risks to the downside (market decline) are actually equal to the risks to the upside (market advance). The downside risks to a global recovery include protectionist trade policies, draconian action on immigration, and a foreign policy misstep. The upside risks/increased growth may result from increased deregulation, awakening of "animal spirits" (businesses taking on risks to invest and grow), and fiscal expansion. We will keep an eye on how the politics evolve with these themes in mind, but for now we remain committed to our full equity positions. Furthermore, we don't believe that the recent peak in equity prices marks the high point for this bull market, but we do acknowledge that more volatility is likely and we plan to ride out any near term equity turbulence.

As for the bond market, the 10 year Treasury bond had also remained incredibly stable and range bound. When the Fed ended quantitative easing in October 2014, the yield was 2.32%. The first rate hike was in December of 2015 and the yield remained at 2.3%. The yield moved to 2.57% after the second move last December. The yield following last month's increase brought it to 2.5% and today the yield is back at 2.38%. So, despite rate increases we are witnessing a very stable bond market. We will continue to focus on buying individual bonds that yield 5% under 10 years, preferred bank stocks, and other closed-end or mutual funds that focus on income.

In Summary, we are not overly worried just because the market is near all-time highs. We believe that we may be in the late stage of market expansion, but continue to maintain our pro-growth investment view for the next twelve months. We will closely monitor the potential downside and upside risks, and we will adjust accordingly to any fundamental changes, however, we will not get caught up in trying to anticipate market reactions to world or political events.

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