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INVESTMENT MANAGEMENT
Money Managers You Can Trust

July 2016 Thoughts and Insights

A few short weeks ago we sent an e-mail regarding Brexit and any impact it may have to our portfolios. We reassured you that these “shocks” to the market typically reverse over a period of three to six months. Well, the losses that were created by the vote to leave the EU completely reversed in a matter of 2 weeks! This is a great reminder, again, of why we create long term plans, invest according to those plans, and do our best to keep level heads and avoid any knee jerk reactions. Last week retail investors took out over $8 billion in assets from the market, which means they unfortunately did not enjoy the recovery.

However, even though financial markets have calmed we are still faced with a great deal of uncertainty. The good news is that the economies in the U.S. and much of Europe were growing, albeit slowly, before the referendum. We expect the U.S. to continue on a slow-growth path. Consumer spending in the U.S. should benefit from still-strong employment, rising wages, a firming housing market and pent-up demand in the form of savings. We expect GDP growth to average around 2% in the second half of the year, which would be consistent with the slow pace since the end of the Great Recession.

As for fixed income, U.S. Treasury yields plummeted following the Brexit vote and have since moved into new record low territory. This has been good for us in the short run as bond prices increase when yields fall. Since rates in Europe and Japan are now negative, increased demand/buyers of U.S. treasuries are the current driver of lower U.S. rates.

U.S. equity prices have recently advanced and are now approaching all-time highs. For stocks to make significant gains from here we think it will require improving profit trends rather than P/E multiple expansion. We continue to hope for profit improvements in the second half of 2016 and will be paying very close attention to earnings announcements over the next 2 quarters.

Even though the equity markets are at their all-time high and bond yields can’t go down much further, we do not see any reason to change our allocations to either asset class.

The case to remain committed to stocks is that the current dividend yield of the S&P 500 Index is 2.2% compared to the 10-year Treasury that is yielding 1.5%. This is a relatively bullish signal for equities, as investors always seek the highest yields.

Our fixed income investments are selected for high quality credit, solid coupons, and shorter maturities. We hold a large portfolio of direct issues that will always pay in full upon maturity, so we do not worry about price movements. When rates do eventually rise, someday, we will need to rebalance a few of our funds. However, rates have now been at extreme lows for the past 6 years, and we don’t see any real signs that they will go up anytime soon.

Lastly, our gold is up +24% for the year. Although this asset has been an underperformer over the past few years, market events such as this is why we own it.

The political implications of Brexit are arguably more important than the economic effects. The political influence of populist leaders has been rising throughout the world in recent years, and we believe the possibility of a broader move toward nationalist, isolationist and protectionist policies would be a negative for global economic growth. This trend bears watching, especially as the political “fun” returns to the U.S. as both our party conventions get underway later this month. We will be paying very close attention to how each candidate may impact our investment strategies.

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