Independent Wealth Management

Investment Insights

IWM

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Our Philosophy **We believe a broadly diversified portfolio gives our clients the best chance to achieve their goals while taking as little risk as possible to meet their goals. However, we believe there are fundamental economic realities that warrant consideration as we construct and modify portfolios.**

Assumptions & Outlook

- Globally, central bank policies are at a fork in the road. The U.S. is winding down it's stimulus as other countries are beginning to increase their intervention.
- U.S. equities may continue to rise in the short run but valuations appear to be more favorable outside the U.S. at this point in time.
- The U.S. economic recovery continues at a modest pace. Global growth (ex-China) is expected to be muted.
- The U.S. federal, state and local governments will struggle with a burdensome public debt and massive unfunded future liabilities (i.e. Social Security, Medicare, retiree pensions, etc.).
- In the near term, we expect the U.S. dollar to remain strong relative to most other currencies due to a "flight to quality" as a result of global economic and political concerns (i.e. European debt, China's economic slowdown, increasing Middle East tensions, etc.).
- Inflation will be a concern in the medium and long term (3+ years). There are minimal signs of near-term (1-2 years) inflation.
- Our Circuit Breaker technical indicator changed to "Underweight" in August and is approximately 3.9% below a "Normal" indicator.
- Fed on track for 2015 rate hike; gradual pace expected.

Portfolio Implications

- This is a particularly difficult investment environment as stocks appear overvalued, bonds are facing the prospect of rising interest rates (this is bad for current bond holders) and the current interest rates on most cash and cash equivalent holdings are near zero.
- Our investment policy provides the framework and discipline for making investment decisions. We continue to invest globally, in both stocks and bonds.
- Inflation protected bonds (primarily U.S. Treasury Inflation Securities, referred to as TIPS) continue to be a core component of our bond portfolios.
- High quality bonds provide near-term protection from a "flight to quality," but have a negative longer-term return outlook.
- We continue to review, and stress test, our bond portfolios for sensitivity to rising interest rates, global diversity and potential "flight to quality" performance.
- For clients willing to accept near zero returns, cash and cash equivalents have appeal for future deployment when stocks and/or bonds have a more attractive risk/return profile. Clients with large balances in Prime Money Markets should consider alternatives such as CD's or Treasury Money Market funds.

As always, thank you for your trust and confidence.

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