

# Investment Insights



A Quarterly Publication | Forward-Looking Perspectives | June 2016

**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

- U.S. Federal Reserve raised rates .25% in the fourth quarter of 2015 and are expected to continue at a gradual pace.
- World's second largest economy, China, continues to slow as it transitions to a consumer-driven economy.
- After a difficult 2015, outlook for the U.S. equities remains uncertain.
- 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.).
- There are minimal signs of near-term (1-2 years) inflation. Inflation will be a concern in the medium and long term (3+ years).
- Our Circuit Breaker technical indicator changed to "Normal" in May and is approximately 3.3% above an "Underweight" indicator.
- Experiencing consistent but below normal economic growth despite positive signs: i.e. low inflation, low unemployment, low oil prices, low interest rates and etc.
- Britain's recent vote to leave the European Union (BREXIT), while not binding, will most likely continue to cause volatility in global markets. Ramifications of the "exit" are yet to be determined.

## 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.
- High quality bonds provide near-term protection during a "flight to quality," but have below historical average return prospects for the 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.

---

INDEPENDENT WEALTH MANAGEMENT

---

Jay Berger, CFP® / [jay.berger@iwmusa.com](mailto:jay.berger@iwmusa.com)

---

Steve Fisher, CFP® / [steve.fisher@iwmusa.com](mailto:steve.fisher@iwmusa.com)

---

Scott Hackney, CFP® / [scott.hackney@iwmusa.com](mailto:scott.hackney@iwmusa.com)

---

236 1/2 East Front Street,  
Traverse City, Michigan 49684  
231 929 1086 *tel*  
888 929 1086 *toll free*  
231 346 5959 *fax*  
[www.iwmusa.com](http://www.iwmusa.com) *web*

---



**Disclosure:** **1.** This presentation may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements. **2.** Historical performance is not indicative of any specific investment or future results. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. **3.** Investment in securities involves the risk of loss of interest and/or initial investment capital. **4.** Nothing in this letter is intended to be or should be construed as individualized investment advice. All content is of a general nature. Individual investors should consult their investment adviser, accountant, and/or attorney for specifically tailored advice. **5.** The opinions expressed herein are solely the opinions of the respective authors. Certain material in this work is proprietary to and copyrighted by Litman/Gregory Analytics and is used by permission. Reproduction or distribution of this material is prohibited and all rights are reserved. Independent Wealth Management, LLC is a Michigan Registered Investment Advisor.