INDEPENDENT WEALTH MANAGEMENT

Investment Insights

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Our Philosophy **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, there are fundamental economic realities that warrant consideration as we construct and modify portfolios.**

Assumptions & Outlook

- Yields for short-term U.S. Treasuries are now higher than yields for some longer term U.S. Treasuries. This "inverted" yield curve is uncommon and is frequently a predecessor of a recession.
- The Federal Government is well on its way to unwinding the interventions of the great recession.
- The Federal Reserve has put the brakes on further interest rate increases for 2019 and will continue to shrink their balance sheet.
- The U.S. economic recovery continues at a moderate pace. We are seeing a slowdown in China & many parts of Europe.
- Our Circuit Breaker moved to "Normal" as of 2/28/2019 and is approximately 3% above the "Underweight" indicator.
- U.S. economy is experiencing consistent economic growth with many positive signs: i.e. low inflation, low unemployment, low oil prices, low interest rates, etc. However, it appears that we are late in the economic cycle.
- The deadline for BREXIT is April 12th with Great Britain continuing to push for an extension.
- The longer term valuation metrics for both stocks and bonds are currently at very expensive levels, and as a result, future returns are projected to be below historic averages.
- If the current trade environment continues to worsen, it will likely have a negative long-term impact on global economies.
- The U.S. federal, state and local governments continue to struggle with a burdensome public debt and massive unfunded future liabilities (i.e. Social Security, Medicare, retiree pensions, etc.).
- Economic growth combined with labor markets tightening may provide upward pressure on inflation in the near term. Although, we have not seen it yet.

Portfolio Implications

- After almost a decade of distorted financial markets, due primarily to interventions by the central banks of many developed countries to aid in the recovery from the "great recession", we are returning to a more normal investment environment. Stock market valuations, while still at historically high levels, have come down and interest rates have moved up.
- 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 average historical return prospects for the longer-term.
- We continue to review, and stress test, our bond portfolios for sensitivity to rising interest rates, global diversity and potential "flight to quality" performance.
- After three plus years of the Federal Reserve increasing short term interest rates money market mutual funds are yielding approximately 2%.
- We will continue to review cash holdings to make certain they are allocated appropriately.
- On a relative valuation, International Stocks look attractive. We continue to look for opportunities to increase exposure in this area.

As always, thank you for your trust and confidence.

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