Independent Wealth Management

Investment Insights

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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

- U.S. Federal Reserve raised rates .25% in the fourth quarter of 2015, potential for a 2016 rate increase remains a possibility.
- World's second largest economy, China, continues to slow as it transitions to a consumer-driven economy.
- After a difficult 2015, returns for both stocks and bonds have been surprisingly strong.
- 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 5.6% above an "Underweight" indicator.
- U.S. economy is experiencing consistent but below normal economic growth despite positive signs: i.e. low inflation, low unemployment, low oil prices, low interest rates, etc.
- Ramifications of BREXIT are yet to be determined.
- Valuation matrix for both stocks and bonds indicate very expensive levels and future returns will most likely be below historic levels.

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.

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