

Investment Insights

A Quarterly Publication | Forward-Looking Perspectives | July 2018

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

- The most significant changes to our tax code have been implemented. It appears to have provided short-term benefits. The long-term benefit is yet to be determined.
- The Federal Reserve raised rates to 2.0% for the seventh time since they began raising rates in December 2015. The market currently expects two more rate hikes for 2018.
- The U.S. economic recovery continues at a moderate pace. Global growth (ex-China) is expected to be muted but for the first time in over 10 years we are seeing synchronized growth.
- 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.
- Our Circuit Breaker technical indicator changed to "Normal" in April 2016 and is approximately 4.0% 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.
- The "Trump Rally" has increased the longer term valuation metrics for both stocks and bonds, which indicates 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.

Portfolio Implications

- This is a difficult investment environment as stocks appear overvalued, bonds are facing the prospect of rising interest rates (this is bad for current bondholders) and the current interest rates on most cash and cash equivalent, while at no longer zero, are still at historically low levels.
- 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.
- One and a half years into the Federal Reserve's process of increasing short term interest rates and money markets are currently yielding approximately 1.5%. 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.

INDEPENDENT WEALTH MANAGEMENT

Jay Berger, CFP®

jay.berger@iwmusa.com

Steve Fisher, CFP®

steve.fisher@iwmusa.com

Scott Hackney, CFP®

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

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 Forefield 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.