

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

- For the first time in several years, significant changes to our tax code have been implemented. The changes appear to have provided short-term benefits. Any long-term benefits will need to be analyzed at a future date.
- The Federal Open Market Committee increased the fed funds rate 25 basis points to a range 2 percent to 2.25 percent. The FOMC also projects one more hike before the end of the year and three in 2019.
- 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 6.7% 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 interest rates on cash equivalent securities remain low.
- 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 1.7%. 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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