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President's Letter – October 2016

As the 3rd quarter grinds to a close and we enter the final quarter of the year, investors are preparing for what could be an interesting three months. For the last few months the markets have made little headway and we sit about where we were this summer. This is actually pretty impressive given the obstacles placed in front of us by the Fed, as well as the uncertainty caused by the upcoming election. Overall, according to the Ned Davis Research Sentiment Poll, sentiment remains neutral and investors appear to be somewhat skeptical. This is not a new phenomenon. Since the financial crash in 2008 we have been hearing numerous predictions of another major bank failure, municipal bond defaults, a blow-up in the Eurozone or an economic hard landing in China. A lot less common have been the outlooks for "the perfect day." The fact of the matter is that these stories are a lot less compelling and ratings sensitive news programs will not attract viewers with stories about sunny days.

If we look at the data, we are in the eighth year of an economic recovery. That makes this current recovery the third longest in U.S. history. While this seems impressive, this recovery has been given very little respect and it seems that despite slow but consistent growth investors have remained pessimistic every step of the way (some have called it the "Rodney Dangerfield Recovery"). Behind this is the fact that the growth exhibited over this time frame has been consistent but very low and not synchronized across the globe. While the U.S. has been consistently employing stimulus, other economies have been more restrictive. Europe was tightening when the U.S. was loosening, and China was adding stimulus when Japan was not. It seems like the minute one economy starts to gain traction another part of the world does something that puts the global economy on a different course (e.g. Brexit).

One of the ironies of the current recovery is that, despite an eight year run, the low growth characteristics have left room for the economy to go. Normally, with a robust economic recovery, we would start to see signs that the end is near. Stretched balance sheets, excessive optimism, inflated asset values being just a few. The absence of these provides hope that our economy can continue to grow and ultimately lend support to the markets. With valuations that are no longer low, and interest rates that are starting to rise, the case for a raging bull market does not seem likely. However, this doesn't mean that the current bull market couldn't last several more years and still provide investors with very good investment returns. Add to this the possibility that with significant unused capacity this recovery could still produce unexpected positive surprises and keep the markets rising.

The exercise in predicting what the markets are going to do next has always proven to be difficult, if not impossible. Focusing on the facts and fundamentals can provide insight and a broad understanding of the current economic climate. Investors today can be optimistic that the economy has room to grow and continue to support equity valuations. A more coordinated approach by the global central banks to stimulate the global economy and eliminate the conflicting policies will undoubtedly add support as well. The uncertainty that

November's election is providing is likely to cause markets to remain skittish. Particularly when coupled with the likelihood that the Fed will continue in its mission to raise rates this year. Higher rates are needed, but the markets have made it clear that they are not in favor of them – at least in the short term. Markets do not like uncertainty, they never have. But, investors who can remain calm when markets overreact can find value and opportunity. Our goal is to do just that. And while this last quarter of the year might show bouts of volatility, we should remain optimistic as we continue to see opportunities and ultimately position our portfolios to meet our investment objectives.

Falling prey to our emotions can be one of the most damaging actions investors can make. Buying on euphoria and selling on fear is a sure formula for buying high and selling low. While this is easy to say but hard to do, it is still worth being reminded of. For those times when emotions start to creep into your thinking I would encourage you to reach out to us and let us provide our thoughts and analysis. We always enjoy hearing from our clients and value all of your input and opinions. For those who prefer email, I would like to highlight that with increased necessity for security there is a potential that your email gets filtered (or SPAMMED) and we never see it. As a rule of thumb, if you haven't gotten a response within 24 hours of sending an email, call us because we most likely haven't gotten your email. Thank you for your continued trust and support.

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