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FIRST QUARTER COMMENTARY — MAY 2018

Spring has sprung, and the first quarter of 2018 is officially in the books! This time of year, most of us are looking forward to warmer weather, longer days, and backyard barbecues. Another hallmark of spring, baseball, is already underway. The March 29th Opening Day for the 2018 MLB season is the earliest in League history (excluding season-openers at international venues), And for two lucky teams, the season will stretch until the World Series at the end of October.

Over the course of the MLB season, each team will play 162 games – producing over 2,400 match ups and making the NFL season of 16 games look like a veritable sprint by comparison! With such a slew of games, played over a season than spans more than half of a year, not even the "experts" have a hope of reliably predicting which team will be taking home the Commissioner's Trophy in October. Just think about how many expert predictions went bust when powerhouse Virginia was knocked off by unknown UMBC in the first round of this year's NCAA tournament. And while it certainly provides an entertaining basis for friendly office pools; I would guess that most people would not be willing to make any meaningful wager on the outcome of the MLB season or the NCAA tournament before they've begun.

Why then, would you invest your money that way? At given point in time, there is no shortage of "expert" market predictions. Yet, time and again, all too often these predictions end up going the same way as an NCAA tournament bracket. In fact, we need not even look beyond last year for an example. According to data collected by Bespoke Investment Group, the Wall Street consensus estimate for the 2017 year-end level of the S&P 500 Index implied that the index would appreciate just 5.5% during the year, the most bearish estimate since 2005. So what actually happened? The S&P 500 index returned 19.42% over the course of the year and did it with record low volatility. Investors who had listened to the "experts" and taken money off the table would have missed out on some of the best risk-adjusted returns for U.S. stocks in years. This is just one example of why it is important to pay attention to what is happening, not what experts tell us will happen.

It is easy to get carried away listening to the hyperbole from the "experts" we see on cable business news channels talking their book and those selling high cost "solutions" for your retirement security on radio. Notice how little information you are given about their investment discipline and how it works for you, the client and the efficiency of the process or investment alternatives. For their pitch to work, it is necessary to talk about what's in the news headlines, not about what has proven, long-term record of return and reduced volatility.

A critical tool that we use in our investment process and security selection is the analysis of how individual stocks, economic industries and entire markets both domestic and international are actually trading especially relative to each other. This is much more of an objective discipline than trading based on emotion or a grand prediction from someone in the media.

Moving into Q2 2018 here some of our key observations about the current market:

Despite recent volatility, US Equities remains the strongest asset class based upon the indicators that we monitor. And while the US equity market continues to offer attractive opportunities, given the recent volatility, this is also an environment that calls for prudence in individual security selection. Technology, Financials, and Industrials are currently the strongest sectors of the domestic equity market. Meanwhile, Utilities and Real Estate, which typically respond poorly to rising interest rates, have faced selling pressure this year.

International Equities were the most improved asset class of 2018 and remain the second strongest asset class behind Domestic Equities. Emerging markets remain favored over developed markets; with Asia-Pacific emerging and Latin America being the two strongest regions.

Finally, I'd like to briefly discuss the fixed income market. There has been sustained upward pressure in shorter-term interest rates, largely due to action from the Fed. Meanwhile, longer-term rates, which are more market-driven have fluctuated over the last several months. Rising interest rates are the enemy of traditional fixed income instruments and resulted in weakness in traditional fixed income segments such as investment grade corporate bonds and U.S. Treasuries. Currently, strength lies in segments which are not sensitive to U.S. interest rates, such as international bonds, which have also benefited from a weak U.S. dollar and convertible bonds, which have been supported by a robust equity market. The interest rate market is one of many that we monitor regularly for new developments in order to maintain optimal portfolio allocations for our clients.

If you would like to become more familiar with our investment process and the tools I use to identify market leadership across major asset classes and within asset classes please contact me at your convenience.

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