Investment Management Committee
Q4 2017

A Conversaton with Investmark's Investment Management Committee Chairman, Nicholas T. Christie, CFP®

Could you give us some thematic discussion points from this quarter's Investment Management Committee meeting?

Last quarter we discussed and evaluated the complacency prevalent in the markets given the historically low level of volatility (click here for last quarter's IM Committee report). Building upon that theme, which is still relevant this quarter, we explored the prospects for continued, synchronized global growth.

As one of our favorite independent market observers put it recently: "things are pretty good, things are likely to stay good for a while, any questions?" While this 'tongue in cheek' remark does summarize a lot of investors' current attitudes, our job is to examine risks in the marketplace while positioning portfolios for optimal growth over the longer term.

What are some of the risks out there?

There are legislative and monetary items on the federal government agenda that could have an impact on the economy and markets. On the legislative side, we are seeing a push for tax reform with a trend towards cutting individual and corporate rates. Any individual tax cuts should spur additional consumer spending, and a reduction in corporate tax rates will help to grow corporate revenues and earnings and, potentially, jobs and wages. The extent of the tax cuts that will ultimately be enacted - if any - is the big question mark and could be a surprise on either the upside or downside...it's just too soon to tell.

In regards to monetary policy, the Fed has signaled that they plan on continuing to systematically increase rates through the end of 2018. The pace and magnitude of each potential hike will have an impact on investor sentiment, although expectations are that they will continue to dial these in with relatively small increases each time. In addition, Jerome Powell has been nominated to succeed Janet Yellen as Fed Chair. He is viewed as a monetary policy centrist, which seems to make his confirmation more likely. To the extent he favors certain policy actions over others, or if his confirmation hearings are stalled, we could see some disruption in the fixed income markets.

Lastly, as we've stated clearly in previous reports, we expect volatility will reappear, and when it does, it will likely be a test for even the most seasoned investors. However, it is very important to remember that volatility is a normal, seemingly unavoidable fact of stock market life (it's actually the current extended period of low volatility that is not normal). Our portfolios and strategies strive to factor in these inevitable ups and downs on the way to pursuing client goals. With this in mind, we counsel our clients that short-term volatility should be viewed as irrelevant to long-term strategic goals.

The global equity markets have performed well this year, do you think this can continue?

Yes. There have been strong returns in equity markets as measured by the S&P 500 (domestic stocks) and the MSCI ACWI ex-US (international developed and emerging markets). These returns have been supported by more robust growth as measured by GDP (Gross Domestic Product) and - as importantly - stronger corporate earnings growth. In the U.S., GDP is expected to grow in the 3% range. The previously mentioned tax measures could also mean a possible increase to these figures as well.

Where do you see opportunities in the equity markets and how will you take advantage of this?

While domestic equities (US large and small companies) are the cornerstone of our equity portfolios, we do see relative opportunity in the international equity markets (Eurozone and Japan) and we'll add to this portion of the portfolio. From a valuation point of view, international has certainly lagged the US over the past several years. International equities should benefit from the post-effects of the ECB's quantitative easing, continued low inflation and the emergence of long-awaited GDP growth.

Separately, with most equity markets rising over the past year, index (or passive) investing has become very en vogue. What many of those investors forget is that when there is a market pull-back, an index fund actually tends to go down more than the index it tracks. Additionally, excess index investing can lift all the underlying stocks indiscriminately, which can give a misleading result with greater volatility exposure. With a complement of active management in our portfolios, we seek to avoid those pitfalls and provide downside protection when downside volatility eventually reappears.

I appreciate this opportunity to discuss these highlights. Hopefully, it gives a better sense of the factors we consider when designing and maintaining our portfolios and selecting appropriate strategies for each client's unique situation. Thank you!

Investmark Advisory Group

www.investmark.net

Stratford ♦ Stamford ♦ Glastonbury

Corporate Offices: Ryders Landing, 6580 Main Street, Stratford, CT 06614

Tel: (203) 953-3777 ♦(800) 443-1006 ♦Email: info@investmark.net