

My Views from Center St. to Wall St.

"It's deja vu all over again."

~ Yogi Berra

- Climbing the Wall of Worry
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There's an old Wall Street adage, "A bull market climbs a wall of worry." The current market certainly continues to climb despite the dysfunction in Washington, growing worries about North Korea, Federal Reserve signaling continued rate increases, and hurricanes. None of these things have knocked the market off its upward trend as U.S. and global economic growth, low interest rates, and rising corporate profits have continued to fuel the gains.

On one hand if I had to script a recipe for a bull market, I'd say profits, economic growth, and low interest rates would be a good mix and that's what we have today. Most of the signals I follow remain bullish. Right now there are more buyers than sellers and the trend is up. And that's good news for the equity portion of your portfolios.

On the other hand this market is expensive and based on history the bull market and economic expansion are one of the longest in history. As I have stated before, I do not believe we are nearing a recession, but the risks for this market are concerning. My two biggest concerns are a dysfunctional Washington not being able to pass a meaningful tax reform and the Fed increasing interest rates. Markets are expecting tax reduction and disappointment from Washington could bring valuations down. I also believe that this bull market has been aided by the Fed and now they are raising rates...taking the proverbial "punch bowl from the party". It's hard to believe this will not ultimately impact markets negatively.

Where Do We Go From Here?

Using a line from Howard Marks (Head of Oaktree Capital), "We may not know where we are going, but we sure as heck ought to know where we stand." Observations regarding valuation and investor behavior can't tell you what will happen tomorrow, but they say a lot about where we stand today, and thus the odds that will govern the intermediate term. They can tell you whether to be more aggressive or more defensive; they just can't be expected to always be correct, and certainly not correct right away.

I feel strongly it's possible to improve investment results by adjusting your position to fit the market, and we were able to do so by turning cautious in late 2007 and more aggressive in 2009. This was done on the basis of reasoned judgements concerning:

- how markets have been acting
- the level of valuations
- the creation of more and more risky investment products
- the status of investor psychology and behavior
- the presence of greed versus fear, and
- where the markets stand in their usual cycle

I want to make it clear when I make changes to portfolios either by getting cautious in 2007, or adding risk in 2009, or making the recent changes to add tactical strategies and using lower cost holdings to prepare for the late cycle of this bull market, I do it with considerable uncertainty. My conclusions are a result of my reasoning applied with the benefit of my experience (and collaboration with a network of money managers, analysts, and economists), but I never consider them likely to be 100% correct, or even 80%. I think they're right, or course, but I always make my recommendations with trepidation.

I believe we are nearing a period that requires caution, not a full scale exodus. We are still in a diversified risk on asset allocation with a slight overweight to international stocks and global infrastructure. The mantra that has guided B&H over the years is move forward, but with caution.

Our underlying conservatism has given us and our clients the confidence needed to be largely fully invested at times when market conditions are favorable and less invested when conditions are less attractive. (We will continue to follow our mantra as we think it positions us well for the uncertain environment that lies ahead.)

Tax Reform

"Don't tax you, don't tax me, tax that man behind the tree", was attributed to the late Louisiana Senator Russell Long, who chaired the powerful Senate Finance Committee from 1966 to 1981 (NYT). He assisted with tax reform in 1986, and Congress is now considering the first major rewrite of the tax code since then.

The initiative that's being proposed by the President and congressional Republican leadership is simply a blueprint. It must clear a number of hurdles before it becomes law. The framework is silent on how dividends and capital gains will be treated. The outline calls for special treatment of retirement accounts, but no other details were provided. Therefore, anticipating or positioning for changes becomes very difficult given the uncertainty surrounding the bill.

Meanwhile, a 20% top corporate rate has been proposed, down from 35%. It's roughly inline with most developed nations and I believe needed to support current stock market levels.

But it's early in the game and any discussion of the final points is purely speculation.

Personal Note ~

In the month of September we celebrated 3 birthdays my brother, John, my wife, Jennifer, and my Uncle Kenneth. My Uncle Kenneth turned 90 and the family put together a celebration for him which included watching the Tennessee/Florida football game. The party was great except for the ending of the football game for Tennessee fans. Kenneth is amazing. At 90 years old he recently qualified to go to the State Senior Olympics in both golf and ping pong. We should all aspire to have his activity and energy level in our "Golden Years".

In early October I went to the Sevier/Robinson football game for the 1st time in 7 years. Julianna is a member of the Sevier dance team and they performed on the sidelines during the game and did a dance routine during halftime. They put on a great show. While watching the game that night I realized I'd been going to Sevier/Robinson games for 5 decades – as a spectator, a player, and a parent. Time really does go by fast. For the record Sevier won the football game.

Please reach out to me or my team if you have any questions. I'd be happy to talk to you.

I'm simply an email or phone call away, and can be reached at 423-247-1152 or email me at Jeff@BHRetire.com.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial confidant and advisor.

Jeff