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Market Turmoil

Investment Strategy Update

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As you know, financial markets have had a tumultuous start to the year. The S&P 500 is down 9% year to date, the Dow Transportation Index is down close to 12%, the price of oil has dropped 24%, and the yield on the 10 year treasury has fallen 30 basis points, to 1.97%.

There are a multitude of opinions as to why this is happening. Some commentators have pointed to slowing economic data; others to the Federal Reserve's monetary tightening. Our feeling is that this is being driven by slowing growth outside the US, which is leading to sharply falling demand for commodities (reflected in lower prices), which in turn is leading to fears of an emerging markets financial crisis.

For some time now, we've been leery of some of the more "crowded" sectors of the financial markets. A few years ago we eliminated our exposure to Emerging Markets. We maintain little to no exposure to High Yield. We also have no exposure to Master Limited Partnerships (MLP's), and the same goes for commodities as an asset class. Recent market events seem to have proved these choices to have been correct.

We believe the market is anticipating a watershed event of some sort. This could come in the form of the bankruptcy of a major commodity-producing company, or the default of a resource-reliant sovereign. That's why stock prices are declining and bond prices rising, in a classic "flight to safety."

We can't predict the future. However, we can prepare for it. The watershed event, when it occurs, will dislocate markets. This could allow us to enter certain formerly-overvalued sectors—such as High Yield—at attractive levels. Our portfolios typically maintain a portion of fixed income in order to invest opportunistically when we think it appropriate.

Much is happening right now, and we are watching events closely. If you have any questions or concerns, please don't hesitate to reach out and speak to us. We're available at your convenience.