Market Outlook, December 2017

There are three risk factors we must consider when managing investments: company-specific, geopolitical/economic and market risk.

Company-specific risk is perhaps the easiest to measure due to the transparency of financial reporting and the availability of broad-based analyst coverage on the stocks that populate our portfolios.

On the geopolitical/economic front, we are focused on the outlook for inflation, interest rates, and the leading and trailing economic indicators which continue to support moderate global growth with no recessionary pressures in sight. Politics can influence markets as well but this depends on the severity of the threat and where it is coming from or what incentives are promised by accommodating fiscal policy changes closer to home. There are a number of political pressures underway around the world that we are keeping an eye on but we don't see anything imminent that could disrupt the markets at the moment.

Market risk is the least predicable of all the risks because it is influenced by the "herding mentality" of investors who pile in during good times and all try to rush out the door at the same time at the first hint of trouble. Low volatility has been the hallmark of the most recent market rally so we haven't witnessed a lot of this behaviour lately. The S&P 500 has not seen a 3% drawdown since the U.S. election last November which represents the second-longest time period record since 1928. While we don't think valuations are at dangerous levels, we can't expect the rise in P/E multiples we've seen in recent years to be repeated, so continued earnings growth is needed to drive stocks higher.

Although S&P 500 Index valuations are higher than normal, they remain below extreme levels, especially when adjusted for today's interest and inflation rates. That said, as students of Behavioral Economics who have been around the financial markets for over 40 years, we have to pay some attention to the sometimes irrational thought process that goes into predicting market bubbles or market highs.

There is more talk these days about the U.S. market being poised for a temporary pullback but that wouldn't be too surprising after one of the longest uninterrupted market runs in recent memory. Markets always need an excuse for this to happen, of course, and this time around, it might be tax loss selling setting the stage for a mild correction this month when mutual fund companies pay out annual distributions. Such a correction, if it were to occur, should be considered a healthy venting of steam. It would work off some of the existing overbought conditions and possibly set the stage for a year-end *"Santa Claus"* rally.

Since managing the financial risks associated with our clients' changing personal circumstances is our primary focus, we believe that the risk associated with trying to "beat" the market is greater than missing the market. We are making modest changes to our asset mix but no dramatic changes to our asset mix ranges at this time.

We extend our best wishes to you and your family during the fast-approaching holiday season, and hope that the year ahead is full of health and happiness for you and your loved ones.

Sincerely,
David, Linda & CJ

The Angas Shick Group