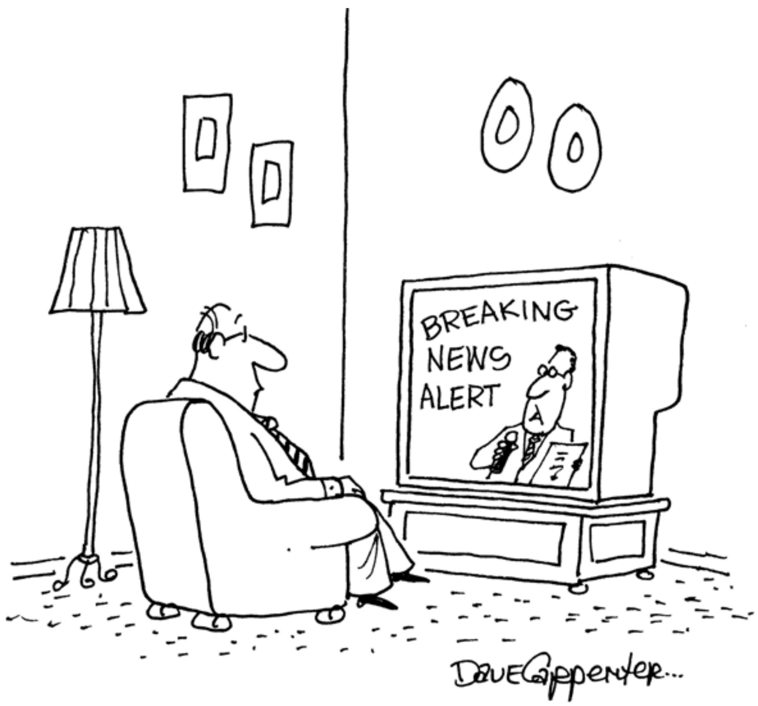
Advisers Stick to Fundamentals Amid Renewed Volatility

"It's tough to make predictions, especially about the future."
- Yogi Berra



"WE DO WANT TO WARN YOU THAT THIS NEWS HAS YET TO BE SPUN, SO YOU MAY HAVE TO FORMULATE YOUR OWN OPINION."

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I tend to be quite critical of financial media and the press. This stems from learning the hard way over the years, having made more than my fair share of trading and investing mistakes. Much of what we read and hear in the financial media/press is stale – yesterday's news – likely fully priced into markets. It may be comforting to share familiar opinions with one's peers, however when it comes to investing, popularity doesn't guarantee success and often has the opposite effect. As the late WWII General George S. Patton once said, "If everyone is thinking alike then somebody isn't thinking."

With that said, Beckie Strum of Barron's published the below article on June 1, 2018, "Advisers Stick to Fundamentals Amid Renewed Volatility," which I largely agree with. This is a little scary for me, as I pride myself in being an independent thinker unafraid to hold contrary opinions. Nevertheless, the investment professionals below put forth sensible advice and so, I thought it made sense to pass this along.
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Advisers Stick to Fundamentals Amid Renewed Volatility

By Beckie Strum

U.S. investment heads at U.S. private wealth managers are urging their wealthy clients to stick to the fundamentals as geopolitical events and policy changes cause renewed market volatility.

On Tuesday, nearly every financial market in the world reacted to a political upset in Italy that revived worries Italians will vote in a Euro-skeptic regime during upcoming elections. Amid a dramatic selloff in Southern Europe, the Dow Jones Industrial Average fell nearly 400 points and U.S. treasury prices rose as investors ran to safety.

The next day, the VIX, a measure of U.S. stock market volatility, hit a 30-day high at 16.6.

It was the latest in a series of political and policy changes since January—from potential U.S.-Chinese trade wars that roiled markets in April to tightening monetary policy worldwide—that have rocked investor confidence and caused dramatic single-day market swings.

Rather than overreacting, experts are advising investors to stick to the basics: Diversify stock portfolios, avoid risky credit, and plan long-term.

"We're not making really dramatic adjustments," says Jeff Mills, co-chief investment strategist at PNC Financial Services Group.

"Although it feels unsettling, 2018 is reflecting a normal market," Mills adds. "If you go back over decades, it's not at all unusual for markets to see double-digit drawdowns."

As for bonds, the biggest shifts caused by rising interest rates are likely behind us, with the yield on the benchmark 10-year U.S. Treasury note having already jumped to 3%, Mills says. Bond yields rise as prices fall. Mills says he prefers to take on the interest-rate risks associated with bonds than taking on risky, high-yield corporate credit.

Diversification outside of traditional stock and bond indexes and broadening overseas investments can dampen the effects of any one geopolitical event, says Steven Wieting, global chief investment strategist for Citi Private Bank.

Wieting even sees an investment opportunity in dramatic jolts like the Italian upset, when markets around the world sank in response to an event that will likely prove to be only regional in significance.

“When every country in the world is reacting to Italy, when India’s reacting, when China is reacting, it sets up a better return environment,” says Wieting, who advocates building a global investment portfolio over focusing on familiar assets and regions.

Citi’s latest investment strategy called for investing in emerging market equities, and to a lesser extent Asia and Europe.

A globally diversified portfolio also can provide a hedge against the inevitable peak in the U.S. stock market and the end of this economic cycle.

Earlier this month, UBS Global Wealth Management sent out a note to clients that said many of its clients were not thinking sufficiently long term and advised ways to hedge against a looming economic downturn.

“This is somewhat of an inflection point,” says Mark Haefele, chief investment officer at UBS Global Wealth Management, who stressed the importance of having a plan. In its note, UBS proposed long-term investments in areas like fintech and emerging market tourism as well as impact investing in women-led companies. Short-term fluctuations can be hedged by diversifying and by using alternative equity-index strategies such as smart beta.

“Market timing is a very poor way to get through a change in the cycle,” Haefele says. “The absolutely worst thing to do is to say you’re going to stick it out and then sell halfway through.”
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Sincerely,

Justin Kobe, CFA
Founder, Portfolio Manager & Adviser

sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Diversification and asset allocation strategies do not assure profit or protect against loss.