Compass Investment Commentary

August 2017 Compass Wealth Management Volume 2/17

Summary:

- A brief look back at the returns of the capital markets in the first half of 2017 and what has been driving these results.
- What are our expectations for the second half of 2017?
- You are cordially invited to our next Compass Wealth Management luncheon. Details are provided in the blue text box to the right.

Major asset class returns for the first half of 2017:

The major financial asset classes have not all moved in the same direction so far this year.

Morningstar reports in the first half of the year the U.S. stock market (S&P 500) is up just over 9%, domestic bonds (Barclays Aggregate Bond Index) are up approximately 2½%, and commodities (DB Commodity Index) are down close to -9%.

What is behind the major asset class returns so far this year?

Tepid global inflation and continued weakness in oil prices are the main culprits behind the negative return of the commodity index.

Bonds have been buoyed by a modest decrease in longer term rates so far this year, despite the Federal Reserve raising its benchmark interest rate (short term rate) two times in 2017.

The stock market has clearly been the biggest surprise of the major asset classes this year as it has already surpassed nearly every major Wall Street firm's forecast for the full calendar year of 2017.

These positive stock market returns seem to run counter to the many concerning events taking place around the world and the continued economic and political uncertainty we see in the media headlines on a regular basis.

Our next Compass Wealth Management strategy luncheon date set for September 22nd:

We have confirmed the date for our next client luncheon.

Please feel free to RSVP if you know you can attend. We will also send another date reminder out in early September.

Date: Friday, September 22nd 2017

Time: 12:00 P.M. to 1:30 P.M.

Location: Maggiano's Perimeter Mall
4400 Ashford Dunwoody Rd
Atlanta, GA 30346

R.S.V.P: Please contact Pam Strada to confirm your attendance:

678-619-2364
pam.strada@compasswm.net

If the stock market was driven only by political inaction, geopolitical risks, and global economic uncertainty, we would be dealing with a very different stock market outcome so far this year!

Media headlines may affect markets in the short term, however, market fundamentals ultimately drive returns. Corporate earnings and revenue results beating analyst's expectations at a high historical percentage in recent quarters has been a main factor of positive stock market returns this year.

Have we made any major changes to our portfolio models this year considering the big swings in the returns across the major asset classes?

We have made no major changes to our portfolio models this year primarily due to the fact that we have not had any changes to our fundamental risk factors that we use to measure capital market risk. Changes to these risk factors would be the primary catalyst for any significant portfolio repositioning.

This has allowed us to 'stay the course' this year and keep our major portfolio holdings relatively unchanged. Therefore, our portfolio models that have equity exposure have achieved broad participation in the upside of the stock market's returns while taking less risk than the market as a whole.

With bonds holding steady this year the only other major asset class that could potentially detract from returns has been commodities (down almost -9%). Fortunately, the only direct exposure we have to the commodity index across our portfolios is gold. Gold has outperformed the broad commodity index, returning just shy of 8% through the first half of the year.

When investment holdings are performing well and overall diversification efforts are working across your portfolio, there is little need for frequent portfolio activity. Fortunately, this has been the case for 2017 so far.

What are our expectations for the second half of the year?

Considering the positive equity returns in the first half of 2017 that have exceeded most analyst's expectations, it might be plausible to believe that the stock market has gotten ahead of itself this year and is now due for a pullback.

Although it is possible we could certainly see a higher degree of volatility in the second half of 2017, if history is any guide then there is actually a fairly high probability of positive returns continuing in the back half of 2017.

Bespoke Investment Group explains this interesting historical market statistic in their June 30th 2017 report:

"For the S&P 500 going back to 1961, the index averaged a gain of 5.41% in the second half when it has been up in the first half. When the index has been down in the first half, it has averaged a gain of 1.08% in the second half with gains less than 50% of the time."

Most importantly, they go on to explain that in the years when the market has been up in the first half, positive returns in the second half happened 78% of the time! When returns were negative in the first half of the year the probability of a second half positive return dropped to 47%.

Wrap up and luncheon reminder:

Regardless of the ultimate outcome for stocks in the second half of the year, we will continue to make informed investment decisions based on our time tested risk management strategy and not based on emotion.

We plan to discuss our risk management strategies in greater detail during our presentation at our upcoming luncheon seminar (please reference the blue text box on the first page of this newsletter for details to RSVP). We hope to see you next month!