



The Investment  
Counsel Company

Investment Management Consultants

## Quarterly Insights April 2017

Every ICC quarterly letter is focused on assisting our valued clients to attain greater insight and perspective regarding current global events, whether investment, economic, or political, so that our investors remain far better informed. We have often cited the historically misunderstood relationship between the direction of the economy and that of the stock market. The market's direction has often served as a leading economic indicator, therefore preceding the direction of the economy, not vice versa. The rally since the presidential election has surprised many, but has this event offered guidance on how to become better investors? In the case of Trump's presidential victory, the market confirmed once again that letting political views affect investment decisions regarding when to get in and out of the market can prove just as costly to investors as using the current state of the economy. Conversely, the market also provided reassurance that investors are best served by remaining objective and disciplined to avoid overreacting to the latest headline news, whether positive or negative.

Since mid-2016, global equity markets have experienced steadily rising prices with low volatility. The last time this trend occurred was prior to the financial crisis in 2007. We are cognizant that volatility trends are cyclical, sometimes lasting for multiple years. Historically, volatility falls to low levels prior to market tops, rising sharply during market declines and falling again after the market bottoms. However, volatility spikes are typically much more extreme in bear markets and at major market bottoms than they are during less severe corrections. So it is a near certainty that stock market volatility will increase at some point (both up and down) based upon prior market cycles.

The stock market has defied many market pundits who have repeatedly expressed pessimistic views by rallying now for close to 200 days without a five percent or greater correction. This rally marks the sixth longest period without such a decline in the last 30 years. As you may recall, the previous market drop exceeding five percent occurred just after the BREXIT vote in June 2016. Therefore, both a return to normal stock market volatility and a moderate correction are overdue. In fact, the initial stage of such

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an environment may have already begun. The good news is that with foreign government central banks maintaining low interest rate policies, corporate earnings in a sustained recovery, and the low risk of a global recession due to continued economic strength, a single digit correction rather than a more severe decline can be expected. Regardless of when the next market downturn and accompanying increase in volatility occurs, we would look for it to subsequently lead to the next stage of the longer-term upward trend.

A contributing factor to the current environment is the recent failure to replace Obamacare, which has shaken investor confidence. This has invited further investment speculation regarding President Trump's ability to implement other parts of his agenda, such as infrastructure spending, regulatory reform and, most critically, tax reform. As discussed previously, financial and economic stimulus can promote fiscal growth that will assist greatly in supporting current stock valuations and continued sustainable market advance.

For this reason, we believe it is far more prudent to adhere to an investment strategy designed to perform acceptably in a broader range of possible scenarios rather than structure a portfolio to benefit from a particular outcome, such as higher interest rates or an unlikely sustained market decline. We look forward to the inevitable opportunities and challenges in the capital markets, global economies and political environment. Thank you for your continued confidence and trust in our organization.

Respectfully,



Randy Garcia

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