

HCM News and Information

September 30, 2017

Please look at Page 4 of the Newsletter for more information regarding:

- Jim Eutsler, after passing his CFP® certification exam last year satisfied the remaining requirements to earn his Certified Financial Planner designation. Congratulations, Jim!
- We welcome Doug Johnson, who will lead HCM's Investment Committee in the formulation and implementation of investment policy.
- While we may be enjoying Indian Summer now, we all know what is coming. To make those cold winter days feel a little warmer, we are pleased to offer Festival of Lights tickets to our Clients. I guess we can finally call this Holiday event a HCM Tradition after 12 years!

Other News:

- On October 7th, HCM again sponsored an Alzheimer's Walk Team. We were joined by Clients and friends to raise funds to help end Alzheimer's disease!
- Finally, the Bengals made us all proud with a win against Cleveland in the "Battle of Ohio".

3rd Quarter Market Observation

If a magical genie had presented you with the third quarter's headlines on June 30th, would you have felt confident in the global markets? Hurricanes, record flooding, threats of nuclear attack, and continued political division blocking improvements in health care, tax policy and infrastructure don't sound like the prologue to a strong market narrative. Yet, in spite of the scary headlines, the global market continued to climb the proverbial "Wall of Worry". During this period, HCM has been fully invested and has enjoyed a full allocation to foreign stocks, a case that was highlighted in last quarter's letter.

The market's third quarter showcases several points that we think about regularly as we develop and implement HCM's investment policy.

- The financial markets discount expected financial information well into the future. Short term events often have very little impact.
- While markets are reasonably predictable over the longer-term, they are entirely unpredictable over the shorter-term.
- It's what central banks DO, and not what central bankers SAY that matters.

Our expectations for long-term growth are improving as a majority of countries are now experiencing economic progress. This strengthens the intermediate case for equities over bonds.

Increasing Trend of Global Growth



Sources: Data from Markit, September 2017.
Notes: The blue line is the global composite Purchasing Managers' Index (PMI) and includes manufacturing and services activity for 34 countries. The green line shows the share of countries in this index with a PMI above 50, indicating expanding activity.

All economies in the Eurozone are improving, a first since the financial crisis. A broadening of steady growth beyond the U.S. gives us confidence the global expansion is sustainable.

In the U.S. the economy's slow and steady growth and modest wage inflation leads HCM to believe the economy still has the capacity to advance further before it reaches the potential limits that will mark the end of the cycle.

With many equity benchmarks moving higher, there is concern by many, including to some extent, HCM, about stretched valuations. However, we see this as a two sided coin. From one perspective we look at traditional valuation measures such as earnings multiples, book value and dividend yields and appreciate the expectation many investors have for a mean reverting event that could bring prices down sharply. On the other hand, we believe that structurally lower interest rates can support higher valuations as long as the global economy maintains its modest growth trajectory and central banks keep a steady hand on the interest-rate tiller.

We fully acknowledge that in upwardly trending markets corrections do occur, and we are overdue. For this reason HCM reduced its overweight allocation to equity risk and moved to a fully invested/neutral allocation. When the correction finally arrives we intend to take advantage of the sell-off by again increasing our equity allocation.

However, in this period of high valuation, what if a simple garden-variety market correction spirals out of control and turns into a systemic crisis? Under those circumstances, buying the dip will require us to take a long view and tolerate market volatility. Patience will be rewarded as it was after the 2008 crisis (an extreme case), where it took six volatile years to recover declines from the 2007 peak. This is where HCM bond ladder protection comes in. Also, tactical management can shorten the recovery time dramatically.

Invitation to Contact Your HCM Advisor

If it has been a while since you met with your Advisor for an investment and planning review, please, give us a call. It is a good idea to regularly review your personal and investment objectives and discuss changes in your financial situation with your HCM Advisor. We are available to meet in person or to schedule a conference call, if that is more convenient for you.

As always, we appreciate the opportunity to work with you and we thank you for your confidence.

Sincerely,



Michael T. Hengehold, CPA/PFS MST RICP