WEALTH MANAGEMENT

Integrity. Independence. Insight.

100 E. Pierce Road, Suite 100
Itasca, IL 60143
Office 630.285.0215

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"Estragon: I can't go on like this.
Vladimir: That's what you think.

Vladimir: Well? What do we do?
Estragon: Don't let's do anything. It's safer." -from Waiting for Godot by Samuel Becket

Dear Fellow Investor:

While the third quarter of 2017 seemed quiet, the S&P 500 increased nearly 4% for the quarter, resulting in a year-to-date gain of 11.6%. The gains for the year have been relatively steady with a few bumps here and there. This steady upward movement in equity prices has kept the market's volatility index (VIX) at extreme lows. Interest rates continue to remain historically low although the yield curve has shifted up from a year ago and become a bit flatter (i.e. the difference between short and long rates has narrowed). However, with the ten-year treasury hovering in the 2.25% range, rates are indeed historically low and not facing much upward pressure even at this point in an extended economic recovery.

Conditions like this can make equity investors willing to increase their allocation as complacency about risk creeps in. We are seeing some professionals encourage riskier allocations in the current environment. We are also hearing the usual cries of panic from other quarters that the end is upon us. The low returns in the bond markets and tighter credit spreads also encourage more risk taking in fixed income via taking on more credit risk and/or duration risk. We are always reviewing risks and allocations, but these decisions should be based on longer term considerations and assessments and not shorter-term perceptions.

We don't mean to say that we are not upbeat about the economy and markets, we are. Corporate profits continue to be strong and are expected to edge higher. Inflation continues to be low and is not exhibiting an inclination to increase much anytime soon, despite central banker desires. Employment is strong and the most recent University of Michigan Consumer Sentiment survey surged to a 13-year high even after the recent hurricanes (although probably not a lot of sampling from Texas and Florida). Things look good for the US and are also improving internationally. With this expansion stretching into one of the longest since WWII, its slow growth rate so far may give it room to run a bit more (hopefully picking up the pace from its jog pace). Add to this the prospect of tax reform and what's not to like?

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There is concern about international politics, and rightly so, but there is also a lot of noise surrounding events. For investors, it is important to look past the noise and focus on results. Ask how business and the economy is likely to be affected and not be distracted by tweets, posturing and media pundits.

So back to allocation and portfolio moves. We want to warn against making moves either because we perceive risk is diminished or because we are overly concerned that the next market crash is around the corner for no other reason than "it's due". Our human condition makes us prone to short term thinking and decision making. In fact, the recent Nobel Prize in economics went to Richard Thaler, who studies this very issue. It's this thinking that can result in decisions that negatively impact long term results. Not that we recommend taking the do-nothing approach of Vladimir and Estragon above, but we will always look at current conditions in the context of a long horizon and not relying on history to repeat, or even rhyme. Valuable lessons can be learned from history and perhaps the most valuable is that yesterday will never repeat and tomorrow will be different from today. Make allocations and changes based on the assessment of your personal risk tolerance and your long-term plan. Staying active and involved doesn't mean there must be activity.

Sincerely,

Erik G. Ford
Director of Wealth Management

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The Standard and Poor's 500 (S&P 500) Index is a capitalization weighted index of 500 stocks designed to measure performance of the domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

CDH
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The VIX is quoted in percentage points and represents the expected range of movement in the S&P 500 index over the next year, at a 68% confidence level (i.e. one standard deviation of the normal probability curve). For example, if the VIX is 15, this represents an expected annualized change, with a 68% probability, of less than 15% up or down.

The opinions voiced in this material are for general information only and not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested in directly.

Any economic forecasts set forth in the above may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Past performance is no guarantee of future results.