Stirling Bridge
Wealth Partners, LLC

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"Hobbits really are amazing creatures… You can learn all that there is to know about their ways in a month, and yet after a hundred years they can still surprise you at a pinch."

So says Gandalf the Gray, wizard from *Lord of the Rings* fame, when describing those most unlikely of diminutive heroes in Tolkien's famed saga. In *The Fellowship of the Ring* we see the assembly of notable champions, from an elegant elf to battle-hardened warriors. Our mind tells us the coming confrontation will be epic. Our heart tells us that, with luck, one of the experienced and brave fellows will lead good to triumph over evil. Instead, victory over the menace growing beyond the horizon comes at the hands of the most unexpected person of the fellowship, a short, barefoot hobbit who likes to eat and drink and smoke tobacco.

Likewise, the second quarter ended and the third quarter began with a few most-unexpected events. Common wisdom said the Brexit would not happen. It did. Then, for a few days, so-called common sense had many investors clamoring for the exits. Brexit would immediately usher in a global recession, they said. So far, it has not. Stocks have rallied significantly. Actually, they've finally jumped out of one of the longest-lasting see-saw trading ranges in history that began in November 2014. Today, domestic large cap stocks sit perched near new record highs.

So, what has caused the leap ahead? It's been said that the market climbs a wall of worry. Is it as simple as that? Probably not. To be sure, stock prices got cheap enough to present bargains to shoppers in the days following the Brexit vote. But the rally continued for an entire month.

July, as it always does, brought us a giant pile of second quarter earnings results and projections of third and fourth quarter reports. Since March of this year, expectations for these and future earnings have steadily increased. And, surprisingly, in July about 80% of companies met or beat those growing expectations. Many also reaffirmed hitting their growth targets for the remainder of the year. In fact, if today's expectations prove correct, 2016 will be the highest operating earnings year ever. So, fundamentally, companies are running efficiently and likely deserve these higher prices.

That is not to say it is time to whole-heartedly take on the risk of owning more equities than we ought. The recent breakout might continue and we are positioned to prudently take advantage if it does. However, we have concerns.

The U.S. and global economy continue to grow, albeit weakly. This has contributed to record-low interest rates for record-long periods of time. As many of you are aware, some developed economies, especially in Europe, have negative interest rates (Yes, that means folks loan their governments money knowing in advance they'll get back less at maturity).

These low global rates have had a few effects. First, they've allowed governments (like our own) to continue to operate with high debt levels and easily meet interest payments. Second, low rates have prompted some companies to fund operations and stock buybacks with cheap debt. Third, the anemic interest rates have begun to compel investors to eschew owning bonds and look to stocks for yield.

Each of these three phenomena are fine in the short-run as long as the participants in each case:

1. Are aware of what they are doing and
2. Have a plan to unwind the excess WHILE RATES ARE STILL LOW.

From our emphasis you may rightly gather that we have little faith in politicians', executives', and investors' abilities to do so. We do have real fears that investors will end up with more than just a hangover from the current inexpensive debt binge. As a result we continue to look for ways to position for potential increases in asset prices over the near term while preparing client portfolios to effectively weather the next storm – whenever it might arrive. In the meantime, expect the market to surprise us all with the unexpected.

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent our way.

Sincerely
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