Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – MARCH 1, 2018

Go to the ant…consider its ways…
It stores its provisions in summer
And gathers its food at harvest. ~ Proverbs 6:6-8

Last month we shared the sage thoughts of ancient Roman writers and rulers on the concept of preparing for war in times of peace. This month we travel a bit further back on the chronometer, all the way to the 10th Century B.C. when the sagacious King Solomon ruled. But our topic for March, though clearly related, is not war, but hard work and saving. And fear not, by the end, we'll have also dived into the prevailing reasons for the recent increase in market volatility.

To a person our clients have proven that they have only the best ant-like qualities. We enjoy the company of these diligent workers at client meetings. Likewise, they exhibit that other famous characteristic of the industrious insect. They are prudent savers.

But after a terrific run of 10 positive months in the market, reality, Murphy, and gravity paid us a swift visit in February. The prudent among us ought to use such negative price action as a nudge, a reminder that we ought to take the Scout motto to heart.

Be Prepared.

Specifically, each of us must commit to an emergency fund. Call it a rainy day fund. Call it a contingency plan. Whatever the name, pack this reserve chute neatly in good times.

Set aside three to six months of living expenses in a safe, liquid, non-volatile place.

Most states have rainy day funds that they replenish when tax receipts increase and deplete when incomes and taxes fall. Nations that have reserve financing or taxation levers to pull in times of strife most often prevail on the world stage. Compare the most fiscally responsible states in our fine Union to the mismanaged. Compare our increasingly indebted nation to others with more financial muscle held in savings. Which would you prefer to lead?

Treat your personal finances the same way. Emergency funds provide flexibility.

During our career we've witnessed truly wealthy individuals endure unnecessary hardship because they did not plan adequately for tough, short term bumps in the road. An issue that might have been a blip, turned into a years-long problem because they saw only opportunities. We ought to know that every waving field of wheat hides imperfections and rocks just below the surface.

Now. What exactly happened last month? Fears of inflation suddenly spiked. As a result interest rates jumped. While they are still low by historical standards, the move was significant. Higher rates make asset prices lower. Thus the sell-off.

Is there inflation? Yes. But. It remains modest. The February reading of the CPI came in hotter than expected. We believe that we are likely to experience a short term increase in inflation in early 2018 from the expanding effects of recent tax reform. However, we expect it to moderate by year end. On the other hand, if inflation truly firms, rates will go higher, possibly sputtering an otherwise healthy economy.

As Twain said, *History doesn't repeat itself, but it often rhymes*. So we look back to 1966. Like today, a period of low inflation had preceded it. Suddenly, inflation blew through 2% and over 3%. Unfortunately, policy decisions by those in power exacerbated the problem. Hence the stagflation of the 1970s. We believe that policymakers have learned a powerful lesson from that lost decade. If inflation does spike, we expect the Fed to increase rates aggressively. Such moves would cause near-term pain. But the short term sting would pay long term benefits by taming inflation before it got out of hand. To repeat, as of this writing, we do not expect significant inflation.

But we could be wrong. Policymakers may have learned nothing. It is clear, though, that emergencies will happen at some point. But we have no lasting concerns because our prudent clients will have saved a rainy day fund. They'll weather storms and be able to invest for the future whenever the next downturn arrives.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

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