Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – DECEMBER 1, 2017

Better three hours too soon than a minute too late.
~ Mr. Ford in Shakespeare's The Merry Wives of Windsor

Mr. Ford is a comically jealous husband. He is constantly suspicious that his wife is accepting the buffoonish advances of the rotund, boastful, old knight, Sir John Falstaff. And, in truth, she is! However, Mrs. Ford and a friend have only agreed to meet with Falstaff for their own amusement, not to mention as revenge for his presumptions that the married women are interested in such indiscretions. What follows is great hilarity and Elizabethan embarrassment for Falstaff. Along the way, Mr. Ford utters the famous line above when he thinks he has successfully set a trap to catch his unfaithful wife.

With skyrocketing equity prices and record-low daily volatility, we were reminded of Mr. Ford's phrase. Specifically, is it too late to buy into this market? And what are the potential consequences of our decision, right or wrong?

While we, of course, do not know with any certainty the direction prices will take, there is a right answer to the question of timing. And, we believe that despite our lack of perfect foresight, the solution can be discovered with a modest knowledge of finance and history, as well as slight introspection of one's goals. In short, it is by solving the second question that we can arrive at the proper answer to the first.

Let us begin with Mr. Ford's suggestion in mind. Arriving long before your plane departs may give you 180 minutes of boredom and 2,000 excess calories of Cinnabon desserts. But you will still make the plane and arrive at your destination on time. Arriving one minute after the plane lifts off, produces a cascade of negative outcomes.

In other words, what is the risk you take in making the decision to add more and more money to stocks today in order to chase returns? Well, over short periods (12 months) there is very little correlation over expensive valuations and return. Sometimes, investors pay a lot for stocks and earn a lot. Other times, they pay a lot and lose a lot.

But over longer periods (10 years), there is <u>absolutely</u> a correlation between the two. If stocks are purchased at high valuations, chances are that ten years hence, returns will be lower, all else being equal.

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So, we've answered the second question. The potential consequences to investing at lofty valuations are indeed harmful, sometimes perilous, to long term investors. Therefore, we have been recommending for about five months to make certain that client portfolios are neutral with regard to their stock targets. No more. No less. Market prices, especially in technology, have continued to spiral upward over that period. We admit that there exists a risk that we are, in essence, three hours early in our call.

But we must look at the potential risk to client portfolios should we reverse our decision and again overweight stocks. In that case, we increase the likelihood that we are a minute too late, in Mr. Ford's parlance, thereby placing undue risk upon the shoulders of our clients' fortunes.

As we stated last month, times are certainly good and we ought to let the good times roll. Earnings are good. Profit margins are great. Interest rates remain low (but are increasing). Taxes may fall. However, as rational investors we cannot allow our exuberance to translate into carelessness. 2018 will mark the first year since the Great Recession when the majority of the world's major central banks will cease their easing operations. This phenomenon has historically been a significant headwind. We don't expect it to hamper economic growth until 2019, but the market is forever looking ahead, reading the tea leaves, divining the entrails.

To summarize, apart from an unexpected geopolitical event or a total tax reform failure, there is nothing on the immediate horizon that should abruptly cause prices to reverse course and plummet. But there are important factors to consider that ought to temper our enthusiasm for ever-higher prices. And even though Shakespeare's warning comes to us in comedic form, we embrace its emphasis on punctuality over tardiness.

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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