Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – JUNE 1, 2017

PEAK, PEEK, OR PIQUE?

Ah, the beloved homophone, impressed heavily into our psyches by diligent English teachers from Greensborough to Greensboro. These fun words in our native tongue have the same pronunciation, of course, but different spellings, origins, and/or meanings. Some of our personal favorites are none or nun, levee or levy, whine or wine, and sealing or ceiling.

When writing, homophones can be dangerous pitfalls even for the brightest swashbuckler of prose. Consider that in the era of spellcheck how foolish we would all feel if we sent an email claiming, "The delivery of whine to our favorite none, who resides in the convent with the high sealing just past the levy, was on time." Punctual or not, the person making the claim may just have made his last delivery for that particular winery. Choosing the right homophone matters.

And so it goes with managing portfolios in the current marketplace. Prices of all sorts of assets from stocks to bonds to alternatives to blockchain currencies like Bitcoin are at or near all-time highs. But new highs do not necessarily mean we are at a *peak*. It very well may, but it could also signal to investors that they ought to take a deeper *peek* at fundamentals. Perhaps high and even higher prices are justified. Or, should low rates, low inflation, and solid earnings merely *pique* our wary interest in additional investment at these prices?

Stock and bond valuations seem lofty. As of this writing the trailing PE on the S&P 500 is close to 22. With robust expectations for growth, the forward PE is a more reasonable 18. Elevated nonetheless. And the ten year Treasury bond yields a rather paltry 2.21%, denoting high bond prices.

With such rosy expectations priced into the market, it seems a prudent place to pause and take inventory. As such, this week, we have begun consciously trimming back equity positions that we had previously allowed to outgrow client strategic targets within the proscribed tactical range.

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You may infer from this pruning activity that we believe we are at or near a market peak. That, in fact, may be the case. However, since fundamentals do remain strong, we see no immediate catalyst that should cause a crushing pullback. Any one of a number of geopolitical events could erupt and cause a sharp drawdown, but we have a fairly strong financial system mostly free from contagion (with the possible exceptions of the continuing sagas in Italy's banking system, Greece, and Puerto Rico). And despite divisive political rhetoric across the globe, business continues unabated.

Last month we mentioned that some have said we are in a Goldilocks market. It is not too hot, not too cold, just right. Perhaps we are. However, it would seem to long time market observers that those parameters are already more than fairly priced in.

So allow us to summarize:

1. We likely are near a peak. Therefore, it is prudent to reduce portfolio risks.
2. We see no immediate or dire drawdown on the horizon. Therefore, it makes sense to remain <u>at or just slightly below</u> a client's strategic stock target. We see no reason to make a bold tactical shift to underweight equities.
3. We've taken a peek at fundamentals and valuations. While our interest is piqued. We believe that discretion will prove the better part of valor, caution preferable to rash bravery.

Recall that for each and every client we've developed a strategic risk target that is customized. So whether you find your portfolio at 25% equity or 75% equities, it is the result of our discussions surrounding your goals. We then marry those objectives with the risks and opportunities available in the marketplace and from that, build a portfolio.

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

Jason Born, CFA
President

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