Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – MAY 1, 2017

Stan Fields: *Miss Rhode Island, please describe your idea of a perfect date.*
Miss Rhode Island: *That's a tough one. I'd have to say April 25th. Because it's not too hot, not too cold, all you need is a light jacket.*
~From the film Miss Congeniality

Misguided as the character of Miss Rhode Island may be in the above exchange, she describes a phenomenon that has applications well beyond a cool spring day in her home state. The idea of something being *not too hot, not too cold* springs from the old fairytale, *The Story of the Three Bears*. Our understanding is that the heroine of the tale with whom we are all familiar, Goldilocks, was not actually given a name until long after its original publication in 1837. However, once the little golden-haired criminal arrived on the scene, the story erupted into a world-wide family story that accurately describes how the curious among us actively search for something that is "just right" – sometimes ignoring the consequences along the way.

A few prominent economists, academics, and commentators have suggested we may be in a Goldilocks market right now. That is to say, that economic growth is not so hot that it might spur real inflation. Nor is it too cold to cause immediate fear of a recession. Earnings growth remains robust and if recent corporate guidance is to be believed, set to improve later this year and beyond. And if Goldilocks is the girl of the moment, then all of these situations may combine to keep interest rates on a very slowly increasing pace and make current stock valuations appear quite reasonable.

Readers who frequently devour our musings know that we have spent a fair amount of digital ink defending the notion of holding bonds even in this period of low (and maybe rising) rates. Have we suddenly changed our stripes? No.

We merely acknowledge that equities, if the above Goldilocks and baby bear scenarios play out, are reasonable long term holdings even at today's prices. Not all stocks make sense at all prices, of course, which is why we attempt to be selective. However, on the whole, market bulls do make valid points. History has shown that when rates begin slowly ascending from the basement floor as they are now, stocks and even bonds can end up doing quite well. It is not until rates become truly prohibitory and/or the yield curve gets nearly to fully inverted that the trouble and opportunity begins.

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But our clients have worked lifetimes and generations for the wealth they've been fortunate to accumulate. We will never so cavalierly place excessive amounts of their capital at risk based upon the hunches and thoughts of a few learned academics. So even though today it appears that equities are not poised for an immediate drop, we don't recommend clients alter their long run asset allocations between stocks and bonds.

Keep in mind that there are still other prominent and erudite folks barking up a different tree from baby bear. They suggest that stocks are, in fact, like papa bear's porridge, too hot and expensive based upon their current valuations compared with history.

We say only that stocks today are priced near the top end of what can be considered a long run, historical range. They are, in our view, not too hot, not too cold. But we also admit that to know the outcome of this fairytale with any certainty requires the absolute benefit of hindsight, something from which we won't benefit until, well, later. As a result, we must do the best short, intermediate, and long run forecasting with the best data we can get a hold of, using it to drive our decision-making process.

That is what we've done in each and every case for our clients. 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 custom portfolio.

So let us not rashly tilt our portfolios to favor one porridge over the other. Let us instead focus on the proper allocation between all of our choices. In this manner, instead of getting caught red-handed, like Goldilocks, and thrown in the slammer, we are able to take advantage of all the market's hot or cold opportunities in the measure that is most appropriate to us.

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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