MARKET COMMENTARY – SEPTEMBER 1, 2017

Hasta la vista, baby. ~ Arnold Schwarzenegger – T2

So said the Terminator, a cybernetic organism, as played by Arnold in Terminator 2. Since its release fans have affectionately dubbed the sci-fi film **T2**. There were many memorable scenes in the movie. In one, his human companion, John Connor, was in the process of teaching the talking machine to speak with a little more human emotion and phrasing. Well, the Terminator got the words correct, but his emotionless delivery was deadpan robotic, creating a memorable moment in popular cinema history. It also cemented Arnold's reputation for dispensing terrific one-liners in his action movies.

And like the Terminator said to his myriad of would-be attackers as he efficiently dispatched them, the time has come for us to say hasta la vista, or goodbye, to a trading standard that has been in place since before our careers in the securities industry began. We're talking about T+3 settlement, which means shares in stock purchased today aren't delivered until after three more business days have passed. September 2017 marks the beginning of T+2 settlement.

In the history of markets this is a small, but magnificent, step that will go largely unnoticed by most folks. It is important because the shorter the time between trade and settlement, the lower the risk. For example, either buyer or seller, or both could go bankrupt between the trade date and settlement date the longer the span. And to be sure, such an unfortunate event has happened more than once.

In the 1980s settlement occurred at T+5, thereby increasing the risk compared to today. In the 1700s and 1800s the standard could be many days longer, maybe two weeks, depending on the exchange. It often took a long time to deliver physical money and certificates when using a horse and buggy. Sometimes a courier would leave and only find out after arriving that his counterparty had gone bust.

You may ask, if our clients would never really notice this technical change, why do we even bring it up?

For a couple reasons, really. First, the market is always changing. New products, regulations, and technologies are constantly forcing the boundaries outward. Some things, like low-cost index investing, are decidedly beneficial. Other newcomers, like leveraged ETFs, are awful. And still more developments have both good and bad aspects – think trading from your phone and automated text alerts. Investors and their advisors need to be aware of the changes ahead of time and must determine whether they are something to embrace or shun, to encourage or rail against. A decrease in the time to settlement is a positive shift that we can feel good about in an era packed with negative news.

And, secondly, one of our goals in writing a monthly market commentary rather than the more traditional quarterly missive from other providers is to have more time and space to devote to matters that are unique, purely educational, and hopefully enjoyable. You (and we) would get quite bored if each month we regurgitated the return stats for the previous 30 days of the Dow and other indices.

So, this month while golfing or at work, you can amaze your friends with a little esoteric market trivia that delves into the arcane world of stock settlement. Remember, in September you'll say *hasta la vista* to the old model T+3 and *hola que tál* to our new and improved friend T+2.

Now, to quickly circle back to our topic from last month where we discussed the fact that we've grown more cautious in recent weeks. August returns seemed to confirm that we were right to move to a neutral stance from an overweight view toward equity. Generally, equities of all sizes gave back some of their strong gains from earlier in the year. Nonetheless, stocks are still within spitting distance of their all-time highs. Participants seem to loathe stocks, but keep buying them because interest rates remain stubbornly low. Meanwhile valuations are extended (not insane, but pricey). As such, we remain neutral (meaning, if you are to be at 60% equity in the long run, we try to be right on target).

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Sincerely

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