MARKET COMMENTARY – MARCH 1, 2017

Make hay while the sun shines.
AND/OR
Save for a rainy day (and a long dry spell). ~ Anonymous

Most of you are aware that we grew up on a working farm in Ohio. To this day dad, who in 2017 celebrates three score plus ten years since his birth, toils away so that the farm may still be called 'working.' Why the barns and land get the credit baffles us. And back in our younger, lankier days, the phrase 'make hay while the sun shines' was much more specific than the idiom or proverb it has become. Dad uttered it often, not quite to the point of tediousness. Making hay while the sun bore down was reality, a way of life, a dirty, scratchy, sweaty step to put food on the table.

Investors, too, must make hay while the sun shines. We take this to mean that when equity markets are rising, our clients must participate in the bounty (to the extent their risk tolerance allows, of course). Our clients have participated and continue to do so.

However, it is also important to save for the eventual rainy day (or drought). In this context, we believe that investors should prepare their minds and especially portfolios for the rough patches sure to come. Despite the fact that the timing of market plunges is difficult to predict, it is undeniable that history shows they spring up unexpectedly and more frequently than we care to admit. We don't need the Biblical Joseph to interpret pharaoh's dreams to know a period of adverse weather is coming. It will come. We don't know when.

We're driving at bonds. Investors have a hard time seeing the point in owning bonds. Because of low and the possibility of rising rates, some advisors say bonds should be avoided (or even sold short!). We disagree fervently. As anyone who has suffered through and successfully exited a protracted downturn will attest, bonds can serve as an important anchor to one's portfolio and lifestyle.

Bond prices do drop during periods of rising rates.

But as the nearby chart demonstrates, even in a time of falling rates and bond price gains, over 90% of bond returns come from interest payments, NOT price gains.

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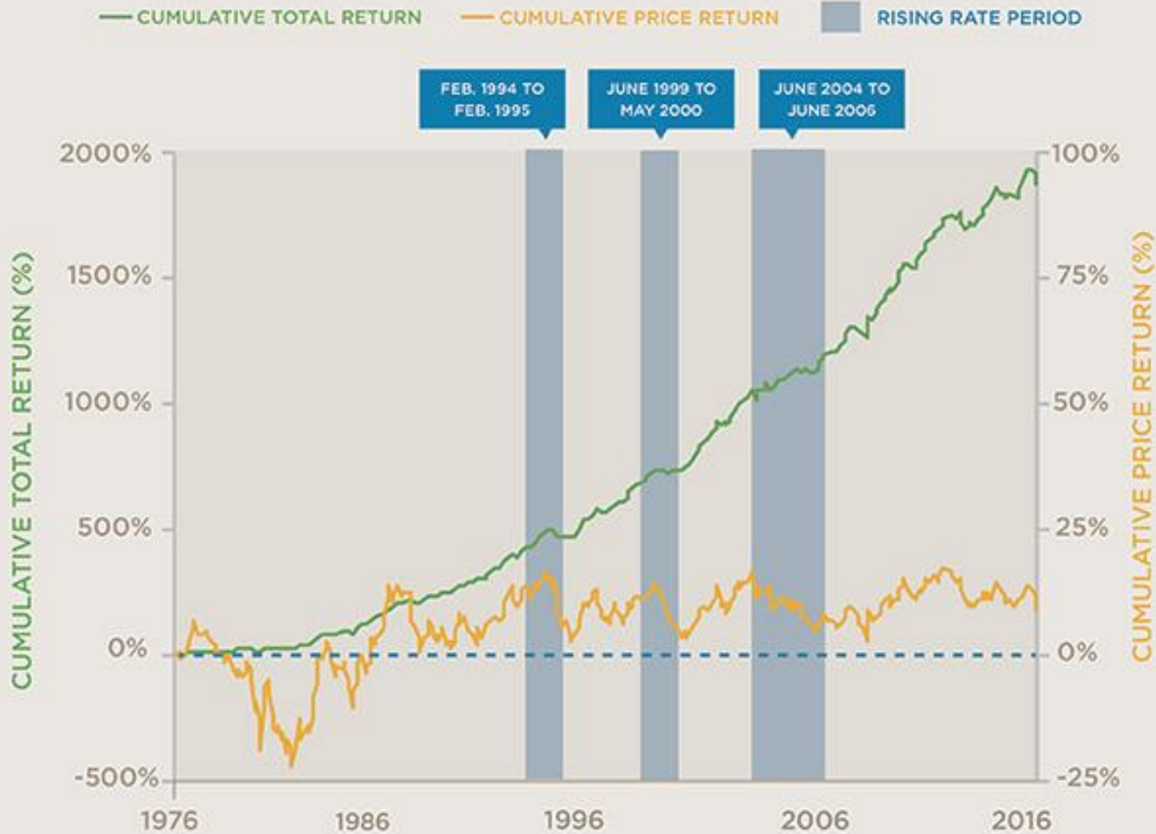

Source: Schwab Center for Financial Research with data from Barclays. Returns shown are from monthly Bloomberg Barclays U.S. Aggregate Bond Index returns from January 1, 1976, through November 30, 2016. Total return equals income plus change in price with a reinvestment of interest payments. **Past performance is no guarantee of future results.**

Our readers are astute, however. You protest, "What about the long period of rising rates from the 1950s to the early 1980s. Surely bond investors suffered mightily!"

No. They did not. The following table from Schwab shows that investors in intermediate government bonds earned a very fair return over the period in question. Rising interest payments more than made up for falling bond prices!

	Average annualized total return, 1954-1981	Average annualized standard deviation, 1954-1981
Intermediate-term Government Bonds	4.45%	5.42%

We do not know the precise movements of interest rates or stock prices in advance. And there is no reason to expect an immediate and precipitous spike in volatility. In fact, as we stated in last month's commentary, there are still reasons to think equity markets will act favorably for a short while longer.

It is not time to fret. It is simply time to think about winterizing our portfolios with less volatile assets. Let us make hay while the sun shines. But also let us save up your portfolio assets in bonds for rainy (or dry) days whenever they may come.

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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