

Stonebridge Market Wrap

January 20, 2017

## For the week ending January 20, 2017

The market continued its pullback last week as earnings started rolling in. Now that we have the inauguration accomplished, we can get on with the cabinet confirmation process and, more importantly, the business of governing. I believe that we will see a lot of speculation about what the "first hundred days" will entail and a lot of stories about "what this all means for investors". As is the case with the year end stock lists and things to avoid list, you are probably better off ignoring all of this speculation until we get some concrete facts to act upon.

The post election run up is now turned into a stall pattern. The rally that began on November 8th came to a halt on December 13th and is now in a back and fill mode until something comes along to dislodge it from its tight trading range. The last time we had a tight range like this was in July through September, which resolved itself to the downside and didn't create a bottom until November 4th. Are we in for a repeat? The September pull back was a 10%'er by the way. That kind of correction is often in the cards and is nothing to get excited about. In fact, it is quite logical given the dearth of real information we have about the near term future. The market ran up in anticipation of the tax and regulatory relief that was expected to come and the realization that it would take some time to come to fruition seems to have put a temporary halt to the festivities. Not to worry, if even half of the promises are kept, the market should respond positively.

## Dave Eckenrode Director of Equity Management

Key Economic Releases for the coming week:

## Friday January 27th:

• Durable Goods Orders; 2.6% expected

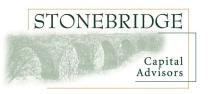
Index & Price Changes for week ending 1/20/17	
<b>DJIA-</b> 19,827.25	Fell 58.48 points
NASDAQ- 5555.33	Fell 18.79 points
<b>S&amp;P 500–</b> 2271.31	Fell 3.33 points
<b>S&amp;P Small Cap 600–</b> 827.56	Fell 12.30 points
90 Day T Bill- 0.50%	Yield Fell .02%
<b>2 yr TSY-</b> 1.17%	Yield Fell .01%
<b>5 yr TSY-</b> 1.91%	Yield Rose .03%
<b>10 yr TSY-</b> 2.44%	Yield Rose .07%
<b>30 yr TSY-</b> 3.03%	Yield Rose .06%
<b>Oil- \$</b> 53.22*	Rose \$.83 per barrel
<b>Gold-</b> \$ 1204.90*	Rose \$6.00 per oz.
Unleaded Gasoline*-\$1.57	Fell <mark>\$.04</mark> per gallon
<b>Euro- \$</b> 1.0731	Rose \$.0085 against the \$

\* Wholesale price for NY Mercantile Exchange traded contract

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## **Review Fixed Income Objectives**

With the bond market experiencing high volatility over the past two months, it is a good time to talk again about fixed income securities in a rising interest rate environment. The day before the 2016 Presidential election, the 10 year U.S. Treasury was at 1.827%. It closed at 2.468% on Inauguration Day. That is a big upward movement in a relatively short period and does have an effect on fixed income portfolio market values.

When there is a sudden change such as this, investors may ask, "should I sell my bonds, view this as an opportunity to purchase more or stay the course?" The answer to these questions depends on the purpose and objectives of each individual account. Below are some things to keep in mind when these events happen:

- What is my asset allocation? Now is a good time to review your asset allocation with your advisor to determine if your account is performing the way that you want it to. It is also a good time to review why you originally set up the allocation the way you did. Have your circumstances changed? Do you need to realign your current account with those original targets?
- Accounts with shorter duration are less affected by market movements. Stonebridge has been focused on this strategy over the past several years. When putting new cash to work, we purchased bonds with average durations in the 3-5 year range. When raising cash, we have looked to longer duration bonds as a source of funds. Selling longer bonds lowers the volatility of your portfolio because the remaining bonds are closer to maturity and thus less affected by rising interest rates.
- **Avoid panic selling.** When interest rates rise, it is easy to panic. Therefore, it is important to keep in mind that your portfolio holds individual bonds. When these bonds mature, they will mature at par. A concern with panic selling is the loss of principal that your account may incur.
- When deciding to buy or sell in this environment, it is important to remember what the purpose of your portfolio is. If your account is intended to provide income, selling bonds may contradict what the portfolio was built for.

With rates being historically low for many years and the Federal Reserve indicating additional increases in the federal funds rate, movements in the market should be expected. Focusing on the purpose and structure of your portfolio will go a long way in avoiding a panic decision, which may negatively impact the income and principal of your portfolio.

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