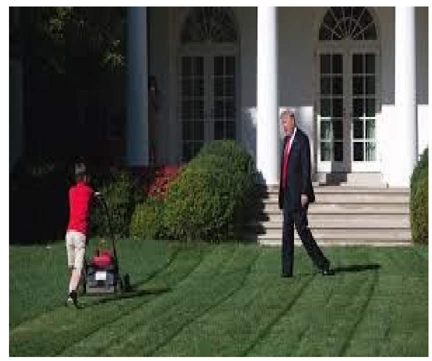
Stonebridge Market Wrap

September 15, 2017

For the week ending September 15, 2017

Raise your hand if you thought the following last Friday before Irma made landfall:
A.) The hurricane would not cause as much damage as predicted
B.) The market would go up

Didn't see those things happening. What will happen now is that 3rd quarter GDP will take a hit of .5% or more and you can ignore that slowing and focus on the strength that will be shoved into the 4th quarter of 2017 and the first two quarters, or more, of 2018. This is all a good illustration of why you do not want to front run most natural disasters. Most of the moves leading up to them are transitory and quickly reversed. Of course, this only applies to hurricanes and other predictable events. It would not apply to earthquakes and the like. Making buying decisions like buying drywall companies or other suppliers is also well known and thus already priced in. Trying to game the market in this way also throws you off your longer term goals as money is shifted around chasing current events.



Since the past few weeks have been about hurricanes and destruction, I thought I'd end with this: An 11 year old kid with a lawn cutting business wrote the White House and volunteered to cut the lawn. They invited him and he got to do it and meet the President to boot. The kid is going places.

David A. Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Tuesday, September 19th:
- Housing Starts.; expected

Thursday, September 21st:
- Leading Economic Indicators; .% expected

Index & Price Changes for week ending 9/15/17	
DJIA– 22,268.34	Rose 470.55 points
NASDAQ– 6448.47	Rose 13.14 points
S&P 500– 2500.23	Rose 38.80 points
S&P Small Cap 600– 855.75	Rose 16.83 points
90 Day T Bill– 1.034%	Yield Fell .01%
2 yr TSY– 1.38%	Yield Rose .11%
5 yr TSY– 1.80%	Yield Rose .15%
10 yr TSY– 2.20%	Yield Rose .14%
30 yr TSY– 2.77%	Yield Rose .08%
Oil- $ 49.98*	Rose $2.69 per barrel
Gold- $ 1324.60*	Fell $27.10 per oz.
Unleaded Gasoline*-$1.66	Rose $.01 per gallon
Euro- $ 1.1942	Fell $.0094 against the $

** Wholesale price for NY Mercantile Exchange traded contract*

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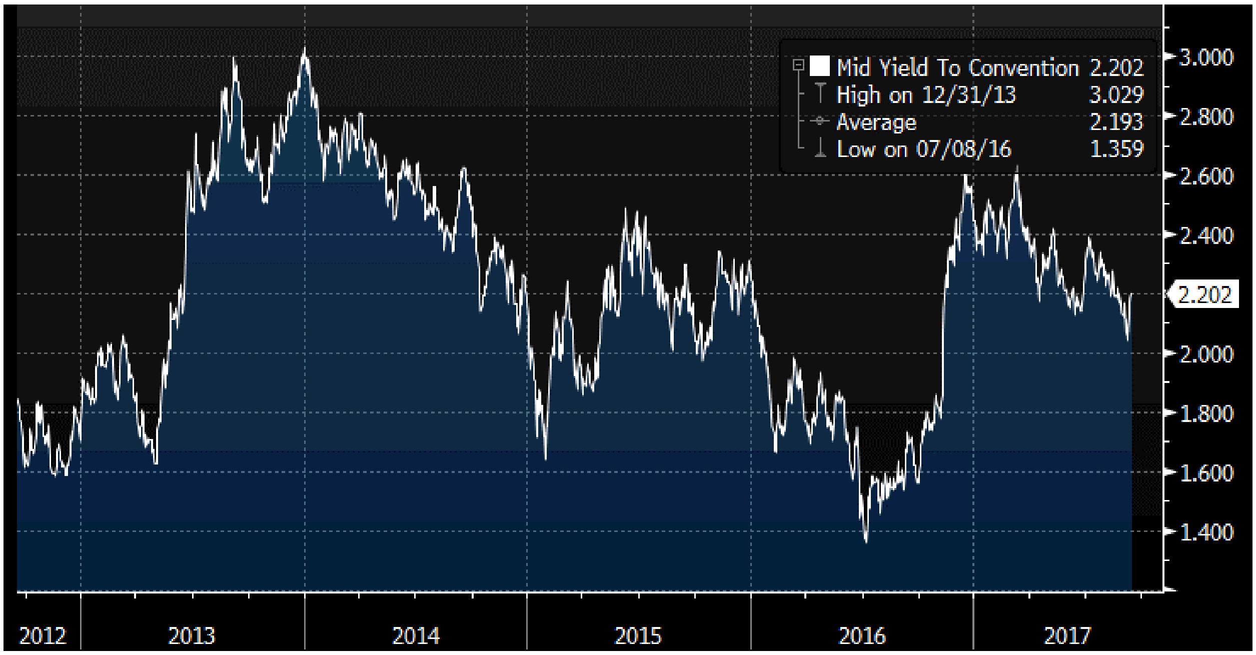
The Value of Not Trying to Time the Market

I am sure that readers of the Stonebridge Market Wrap and other publications are getting tired of hearing how interest rates remain at historical lows. It has been talked about for what seems like forever now. While rates will rise at some point in the future, I think it is a good idea to look back and see why trying to "time" the market is very hard to do and has some downside.



Source: Bloomberg

The above chart shows what interest rates on the 10 year treasury have done over the past 5 years. Over this time period interest rates have fluctuated but have been fairly range bound. We have had many conversations with clients in regards to putting money to work in fixed income over this time frame and continue to have that conversation today. During these conversations, clients often bring up buying bonds when interest rates are this low and wanting to wait until rates go higher. To this, we often tell clients that trying to predict exactly when interest rates are going to rise is very hard. There are too many variables that come into play. Clients who have chosen to wait to either invest or reinvest bonds are sitting almost at the same place we were at 5 years ago and have not been earning income over that time period.

There are a number of things that we at Stonebridge can do when investing in this type of interest rate environment. One area we can look at is to evaluate the allocation of client accounts. For accounts that are balanced (own both stocks and bonds), we can see if we are at appropriate weights for each asset class.

Maybe a higher weight to dividend paying stocks is appropriate. This would have to coincide with our thoughts on the equity market (now coming up on a 9 year bull market) and weigh the risk tolerance of each individual client.

That leads me to another area we can review. For accounts that don't want to add to their equity exposure or are 100% fixed income, we can look at the makeup of the bonds in the portfolio. With interest rates where they currently are, maybe we look at shorting up the duration (the sensitivity of a bond to changes in interest rates) of the portfolio. At Stonebridge, we have been doing this over the past couple years. This allows use to still create income off the assets, while at the same time setting accounts up to hopefully reinvest bonds in a higher interest rate environment.

We encourage clients to talk with their advisor and/or Stonebridge in order to figure out what works best for them. Understanding what options are out there and which ones work best for each individual is all part of the investment process.

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