INVESTMENT PERSPECTIVES

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“Rude Awakenings”

PIMCO held its annual Secular Forum in May, key take aways from the forum include the following:

“Ten years after the financial crisis, the global economy and financial markets could be entering a new era of potentially radical change that will make the next decade look very different for the last. Investors who assume that the future will resemble the post-crisis past could be in for a series of rude awakenings.” Investors we need to be prepared for the challenges that lay ahead.

Over the next three to five years the global economic environment is likely to change and in fact some of these changes are already underway. Monetary and fiscal policy is becoming more expansionary, economic nationalism and protectionism are on the rise.

The recent reduction of federal personal and corporate income taxes in the United States has added stimulus to an economy. The stimulus may cause the Federal Reserve to raise interest rates significantly higher than what would have been considered the normal level of interest rates.

The recent trade skirmishes between the United States and the rest of the world could evolve into a full-blown trade war.

Tensions caused by China becoming a global economic and military superpower could result in conflict as the United States tries to more assertively defend its status as world leader in areas of trade, intellectual property and military strength.

Vanguard’s Mid-Year Outlook 2018

Vanguard recently presented its 2018 Mid-year Outlook. Here are key take-aways from the mid-year outlook:

Rising trade tensions between the United States and China is concerning as this can have a negative impact on global economic growth and stock market valuations in the United States and around the world.

The value of the U.S. stock market is elevated; but at this moment, economic growth continues.

Over the next ten years, U.S. stocks may produce only a 3 - 5% compound annual return. That is not to say that there won’t be years that produce double-digit returns.

So what does this mean for investors at this time, at this stage of the economic cycle.

In my opinion, it means that certain fundamental investment rules should be followed more carefully now than at some other times.

As always, it is important to invest in a broadly diversified array of quality investments, to prudently manage investment risk; and if you are retired and taking retirement income distributions from your investments to prudently managed those retirement income distributions.

Although today’s challenges seem unique, investors have faced similar scenarios before. No period is without uncertainty. Prudent investors stay the course, relying on quality investments, investment diversification and time rather than timing to pursue financial independence.

In the words of legendary investor, Sir John Templeton: “Do not be fearful or negative too often. There will, of course, be corrections, perhaps even crashes. But, over time, our studies indicate that stocks go up...and up...and up.

If you are reading this Investment Perspective and if you are one of my clients you know that I am managing your investment accounts with those fundamental investment rules clearly in mind.

At this moment in time it is almost certainly a time to be more cautious than at some other times - to own a lower percentage of equity investments and a higher percentage of bond investments.

The information presented, I believe, provides important educational information about the current investing environment.

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Important Notice