

Investment Commentary

March 31, 2018

After entering 2018 with a heavy dose of equities, we spent most of the quarter reducing exposure. Donald Trump followed up his tax and de-regulation “wins” (which the markets had rewarded) with a focus on trade and new tariffs (which so far the markets have punished).

We have a number of concerns regarding Trump, a big one being his approach to trade. To be fair, there is little debate regarding China’s trade and intellectual property offenses (and those of similar offenders), which have arguably worsened over the years.¹ Formal actions had been taken against China in each administration since George H.W. Bush. All had ended with the U.S. giving up in one way or another and coddling an increasingly pernicious trade partner.

Confronting China and other trade partners may be long overdue, but that doesn’t mean it will be done easily or without mistakes. Trump’s unique tactics likely elevate risks as China retaliates and the two countries trade penalties. It’s hard to know how it will end.

But the tit-for-tat is less of a worry for us than Trump’s overall trade philosophy. It is one thing to call out a bad actor and rectify a wrong; it’s another to believe that trade deficits are inherently bad and to form policy to eliminate them. Unfortunately this is increasingly the White House’s position.

We hope the addition of Larry Kudlow as the White House’s Chief Economic Advisor helps keep a lid on Trump’s protectionist leanings and neutralizes the influence of Peter Navarro, Trump’s Trade and Industry Director who has been the center of the anti-trade agenda. Kudlow is a clear and sensible thinker. Perhaps more importantly, he’s a great communicator and salesman, someone who has as good a chance as any on getting through to Trump.

Perhaps the market correction is just a correction, not the beginning of something more dramatic. After years of rising stock prices and a 2017 that didn’t even see a 3% drawdown, we are perhaps due for some unpleasant weather. It’s a fact that volatility and down markets are inevitable, though we don’t know exactly how or when. Much as we do to lessen the impact of falling prices, we have to expect lower account values from time to time. It’s a price we pay for gains over the long term.

¹ You can find 161 pages of complaints in the United States Trade Representative’s 2017 Report to Congress on China’s WTO Compliance submitted in January, 2018. <https://bit.ly/2DVoKWI>

That said, we think it's worth remembering there are still many positives in the economy and markets. Economic growth is accelerating, as are wages. The effects of the tax cuts—particularly the corporate rate cut—are just starting to materialize. This means hundreds of billions or more in repatriated corporate cash from overseas, more stock repurchases, higher dividend payments, and higher capital expenditures.

Also, the new Federal Reserve Chairman, Jerome Powell, has impressed so far. The former investment banker comes across as intelligent and pragmatic, with a better communication style than his academic predecessors. We are optimistic but realize we don't know much about him yet. We are back to "Fed watching."

We hope our defensiveness is short lived, and the Trump trade scare is but a buying opportunity. We'll keep you posted.

Notable Trades

The following summarizes major buys and sells placed during the quarter in our Core strategies (conservative, asset allocation-driven and absolute return-focused portfolios representing a majority of our clientele). Note that not all clients or portfolios participate in every trade idea due to clients' circumstances, account size or other factors. Some portfolios are managed primarily, or exclusively, with exchange traded funds.

New Buys:

Equities added during the quarter were subsequently sold as we significantly reduced exposure. Buys included **Vale S.A. (Ticker: VALE)**, **iShares Core S&P Small Cap ETF (Ticker: IJR)**, **iShares Transportation Average ETF (Ticker: IYT)**, **Rio Tinto plc (Ticker: RIO)**, **3M Company (Ticker: MMM)**, and **SPDR Dow Jones Industrial Average ETF (Ticker: DIA)**.

We also purchased a **U.S. Treasury Note: 1.625% coupon due 6/30/2019**. Yield to maturity was roughly 2.3%.

New Sells:

We sold whole or parts of a number of holdings to reduce equity exposure, including: **iShares Core MSCI International Stock ETF (Ticker: IXUS)**, **Financial Select Sector SPDR ETF (Ticker: XLF)**, **Danaher Corporation (Ticker: DHR)**, **The Charles Schwab Corporation (Ticker: SCHW)**,

Facebook, Inc. (Ticker: FB), Raytheon Company (Ticker: RTN), SPDR S&P Bank ETF (Ticker: KBE), Amgen Inc. (Ticker: AMGN), Accenture plc. (Ticker: ACN), Ross Stores, Inc. (Ticker: ROST), SPDR Dow Jones Industrial Average ETF (Ticker: DIA), SPDR Dow Jones Industrial Average ETF (Ticker: DIA), and Exxon Mobil Corporation (Ticker: XOM).

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