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## ***The Intelligent Investor—December 2016***

### **Quick Thoughts:**

It's hard to believe this is my final commentary for 2016. What a fantastic year it has been for me personally, our firm, and most importantly our clients' portfolios. Thank you for your continued support and confidence through this year. I'm looking forward to what 2017 will bring and am thankful for my high-quality staff that allows me to execute the way our clients deserve. Onward and Upward!

### **The Rally No One is Participating In**

In the last month the Dow Jones Industrial Average has moved up over 1,000 points (close to 7%), but the NASDAQ (tech stocks) and other broad markets have not fared nearly as well in the Financially-centered rally. International stocks have not participated in the rally, and bonds have been hit hard by the run up in rates. Needless to say, this has left globally diversified investors scratching their heads.

While I certainly feel investor frustrations, I also see this as a sign of a very healthy market. It is important to remember that the Dow is only 30 stocks. Furthermore, close to 60% of its return over the last month has been made up of about 3 or 4 stocks. We also must remember that bonds are "insurance" in our portfolio and we currently own them not for the upside potential, but for the negative correlation to stocks (meaning bonds go up when stocks go down). Although everyone likes when the market is performing, I remain guarded of this run up as it comes on no real supporting data and no real concrete policy initiatives.

Overall, portfolios have performed very well this year, especially on a risk adjusted basis. I foresee a continued rally in the equity markets including a "Santa Claus" rally, but continue to remain cautious. I caution clients to stay the course in times of fear and panic and to be just as mindful in times of euphoria. We must let the data and valuations guide us. For those of us old enough to enjoy an adult beverage, I fear this is one of those parties where you just keep having one more drink. While it's a blast at the time the hangover the next day may not have been worth the excess. This is why we stay true to our investment discipline despite the "party."

## Market check-in: Investors dance to the Trumpet

As we all know, what is supposed to happen and what actually happens do not always correlate. Donald J. Trump will soon be our next president. A Trump win was supposed to shake markets, given all the uncertainty surrounding his incendiary rhetoric and vague policy proposals. Hillary Clinton represented continuity, even if her platform wasn't always viewed as business friendly.

Although stocks crumbled in overnight trading (primarily accessed by professionals and not individual investors) as the vote count signaled a Trump win (Bloomberg), stocks closed sharply higher on Wednesday followed closely by new major index highs (*Wall Street Journal*).

Conciliatory speeches by The Donald and Hillary seemed to soothe nerves, but markets quickly turned to the fundamentals, and prospects that a Republican Congress and a Republican president would enact pro-business and pro-growth measures forced a sharp shift in sentiment.

Talk of higher infrastructure spending, a cut in the corporate tax rate, and cuts in individual tax cuts were viewed as positives. However, the prospect of higher deficit spending, and with it, the possibility that inflation could tick higher, have taken a big toll on Treasuries and investment grade bonds.

How a Trump presidency will unfold is up for debate, but the unexpected reaction in stocks is a good example of how even the savviest market-timing strategies don't always play out as expected.

**Table 1: Key Index Returns**

	MTD %	YTD %	3-year* %
<b>Dow Jones Industrial Average</b>	+5.4	+9.7	+5.9
<b>NASDAQ Composite</b>	+2.6	+6.3	+9.5
<b>S&amp;P 500 Index</b>	+3.4	+7.6	+6.8
<b>Russell 2000 Index</b>	+11.0	+16.4	+5.0
<b>MSCI World ex-USA**</b>	-1.8	-3.2	-4.7
<b>MSCI Emerging Markets**</b>	-4.7	+8.7	-5.4

Source: Wall Street Journal, MSCI.com

MTD returns: Oct 31, 2016—Nov 30, 2016

YTD returns: Dec 31, 2015—Nov 30, 2016

\*Annualized

\*\*in US dollars

## **I'm here to help**

Let me emphasize again that it is my job to assist you. If you have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

As always, I'm honored and humbled that you have given me the opportunity to serve as your trusted advisor.

*Sincerely,*

*David B. Miller*

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