The Winslow Group – October 2016

Chicken Little is alive and well and clucking about the sky falling, and yet the sky remains where we expect it to be and so we move on to other challenges. Three months ago, it was "Brexit" and we all know that sky isn't going anywhere until 2019. The third quarter began just before the political conventions where we heard from the parties respective Chicken Littles. (Of course, these Chicken Littles have handlers, media experts and PR representatives who proclaim—straight faced and without the slightest irony—that the sky has already fallen and only their chicken can put the sky in its rightful place.) There has been much written about this election over the last quarter, and I think people are tiring of all of the drama. We are all bombarded (if we choose to be) by all kinds of messaging, which constantly tests our threshold for acceptance. In reviewing all the economic coverage for the past quarter, it is clear that there is uncertainty on the horizon. Some pundits sound like Chicken Little with their doomsday predictions, while others are able to forecast continuing strength in the US economy. Regardless of the election results, we still need to end the gridlock in Washington and recognize that government has a role to play in maintaining and sustaining growth and employment, especially in infrastructure, education, healthcare and defense.

Depending on what you read, our seven year bull market should continue—the economy will continue to grow, not as much as we'd like, but it will continue to grow. We do not want to give up on the quality blue-chip stocks in your portfolio over short-term market pullbacks. Yet, we are forever vigilant to reduce the overall risk when appropriate.

With our current bifurcated economic environment, we thought it would be most helpful to summarize the case for and against the "Chicken Little" theory. As you can see there are reasons for having faith in our bull market continuing and there are storm clouds on the horizon that we must continue to monitor. However, we tend to agree with the quote attributed to Mark Twain, "I am an old man and have known a great many troubles, but most of them never happened."

<u>Positives for the economy/ stock market</u> (Why Chicken Little is wrong):

- Global economy has held up well post-Brexit vote in June;
- China's industrial sector has rebounded, after a significant slowdown in 2015. This has benefitted many emerging markets—which was the top sector performer in the 3rd quarter, up 9.2%;
- Inflation remains low—1.5% for the 12month period, ending in September;
- Home sales are back at pre-recession levels. Many millennials are buying homes for the first time;
- Labor market is healthy & wage growth is picking up;
- Improved consumer confidence (declined in October, after back-to-back monthly gains);
- Most agree that the Federal Reserve will not raise rates at their Nov 2nd meeting—so close to the Election;
- Individual investors and corporate balance sheets are flush with cash. Blackrock estimates there is $70 trillion of cash waiting on the sidelines.

Concerns weighing on the market (To support Chicken Little):

- Many think that the Federal Reserve will raise rates when they meet in December;
- Job growth is slowing—a recent PWC survey of private employers found that less than half planned to add new positions within the upcoming year;
- Retail sales are flattening—perhaps, will pick up with holiday spending;
- Concern that the US Bond market is a bubble about to burst- bond yields are at historic lows and investors are taking on more risks with lower quality and longer maturities;
- With the ongoing search for income producing assets, many dividend stocks are pricey at these levels;
- Money is moving from equity mutual funds, as investors get more defensive in light of upcoming political and economic uncertainty.

Despite all this background noise, our markets continue to plug along. The Dow Jones returned +2.78% for the 3rd Qtr and +7.21% YTD. The Standard & Poor's 500 was up +3.85% for the Qtr and +7.84% YTD. The tech-heavy NASDAQ gained +10.02% for the Qtr and 7.15% YTD. The strongest sector was Information Technology, which was up +12.86% for the quarter. This was followed by Financials (+4.6%), and Industrials (+4.1%). The laggards were the higher yielding sectors of utilities (-5.9%), telecom (-5.6%) and consumer staples (-2.63%). The market has been rotating from higher income payers to more growth names. For most of our portfolios, we prefer to own a combination of both kinds of stocks. As most of you know, we like to hold "Dividend Aristocrats" (companies with a 25 year history of paying and raising their dividend) as the foundation for our portfolios. These are blue-chip names that dominate their sector. (As Warren Buffett would say, they have a "moat" around their business.) In addition, we like to add special situational growth names in sectors such as biotech, technology and select consumer names, to take advantage of their unique market niche. For those of you with monthly cash needs, we will continue planning for a cash cushion. As we enter a potentially volatile fourth quarter, we plan to have cash on the sidelines in our portfolios for buying opportunities. As Gail Winslow preached during many uncertain times in the past, "There is only one way to deal with choppy waters—build a sturdy boat".

As we prepare your portfolios for year-end, please let us know of any charitable gifts you would like to make. We will be in touch as we make your mandatory IRA distributions for those of you over age 70 ½. Also, it would be helpful to know if you have any tax loss carry forward from last year. As always, please contact our office if you would like to talk in greater detail. We will continue to build you a very sturdy boat. We wish you and your families a lovely upcoming holiday season.

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