BLUE GRANITE CAPITAL, LLC

Investment Commentary - January 2018

Happy New Year! As 2017 ends, we tip our hats in appreciation for the exceptional stock market performance. After a good return in 2016 (up 11%), stocks put on a remarkable encore in 2017. With the S&P 500 Index rising 21.83% last year, the index has gained 375% since March 2009, the market low point of the financial crisis. No reasonable investor could have predicted such a spectacular performance after a recession that stunned the world and brought the banking system to a tipping point. While economic growth has stabilized, the pace is still only moderate. This remains a big concern. Equity markets have bucked the trend and skyrocketed since 2009 while stock valuations have also become more expensive. The best news may be that the New Year has kicked off with one of the biggest stock market rallies in decades and is hitting record highs almost daily.

Where do the markets go from here? A quick analysis of stocks and bonds leaves us with an unclear picture for 2018. Global stock markets continue to register eye-popping returns with no apparent slowdown in sight. The sheer length and breadth of this 9-year bull market, without a recent correction, adds a further element of risk to the investment landscape. With the Federal Reserve (Fed) tightening monetary policy, bonds are pressured by rising interest rates. Economic growth, while steady, is still only tracking around 2.5% but below normal expansionary levels. Additionally, the introduction of a brand new catalyst, massive tax reform, has triggered a mini-rally of its own. Lower tax rates will substantially boost corporate profitability and consumer spending, providing a further benefit to stocks. Tax reform will undoubtedly provide a positive offset to the risks associated with rising interest rates, uneven economic growth and a very “long-in-the-tooth” bull market.

The purpose of this commentary is to provide an accurate assessment of the current environment and to effectively implement the appropriate investment strategies. The number one goal is to preserve and protect the capital for which you have worked so hard. Market rallies are wonderfully satisfying, especially when they directly correlate to an increase in net worth. However, a 9-year bull market with a 375% gain can neither be ignored nor evaluated with a cavalier attitude. Both the duration and magnitude of this rally, void of any recent correction, add risk and volatility to the near-term outlook. Protecting both your original capital and the lucrative investment gains are the top priority. That is why we carefully consider all market conditions and inherent risks in order to deploy the most advantageous strategies.

Asset allocation--balancing stocks, bonds and cash--provides a growth strategy with the built-in protection to mitigate market sell-offs. As during 2017 and most every year, profits are harvested from stocks that have performed well. These profits are reinvested in other stocks that are identified as opportunistic--attractively valued with catalysts for growth. These portfolio changes provide a more prudent approach to what lies ahead. For the time being, we expect the stock market to continue climbing the proverbial “wall of worry”, knowing it can reverse course at any time.

No strategic efforts can be viewed without consideration for political and global issues that inevitably impact the markets in negative ways. Terrorism, politics, oil price volatility and current trade issues are real problems with political solutions that seem to evade us. It does appear that the political system is broken, with a remedy years away. History suggests that we continue to hold cash, be wary and expect that an overdue sell-off could come at any time. Rather than assume the stock market advance will continue uninterrupted, we anticipate market risk and volatility and manage investment strategies accordingly. In the long run, this diligence will be the most profitable trade that can be made for you.

I wish you and your family the best for the coming year and thank you for your loyalty and trust.

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