ROCKPORT
WEALTH ADVISORS

3rd Quarter 2017

Happy Fall! Welcome to the 3rd Quarter Edition of the Rockport Newsletter.

"For those properly prepared in advance, a bear market in stocks is not a calamity but an opportunity."

Sir John Templeton, 1962

Markets continue to drift higher

As of the close of the 3rd quarter all Rockport Risk Managed Models are still operating at slightly reduced risk levels. We remain in a state of High valuations in stocks, with ageing economic and stock market cycles and (likely) rising interest rates.

The S and P 500 added 3.9% for the quarter and is now up 12.5% ytd. The spectacular year continues and the markets continue to ignore outside news flows and distractions (North Korea, Interest Rate Increases, Terror attacks, and politics both International and Domestic to name a few).

Few of our indicators are showing signs of caution. The only real negatives continue to be valuation driven as the market (S and P 500) is rapidly approaching a valuation that would make it the second most expensive market in history (1999-2000 being the most expensive).

We are surprised that the markets did not experience a garden variety pullback (5-10%) in the months of August and September. It has now been 15 months since this type of event has occurred. On average this occurs every 7-8 months so logic would dictate that a 5-10% pullback is coming.

Interest Rates definitely bear watching closely at this point. Some recent data is showing signs of inflationary pressures in the future. Any sign of noticeable inflation could cause the Federal Reserve to Increase Interest Rates at a more aggressive pace. As of the time of this writing one additional interest rate hike is likely in 2017 (we will see in December) and the forecast for interest rate hikes for 2018 is 3 to 4 more. As we have said in past issues, at some point these interest rate increases WILL matter!

Two changes took place in the model portfolios we run. On August 8th, we replaced AQR Managed Futures with Steben Managed Futures Strategy. Steben Managed Futures is better equipped to handle a wider range of market conditions than AQR as it has short, intermediate and long term strategies vs long term only strategies for AQR. On August 14 we replaced Loomis Sayles Investment Grade Bond with John Hancock Investment Grade Bond. This change was performance driven as the Loomis Sayles fund had fallen out of our performance screening filters for several quarters.

As always if you have any questions or comments please email or call!

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