APRIL 2018

THE INVESTMENT INSIGHTS

A newsletter brought to you by GGFS

Quarter in Review

After hitting all-time highs on January 26th, market volatility picked up sharply, making Q1 '18 the most volatile quarter in nearly a decade. In spite of this, major averages only recorded minimal losses (DJIA ↓ 2.49%, S&P 500 ↓ -0.76%) for the quarter while the NASDAQ Composite posted gains (NASD ↑ 2.32%). Geopolitics, headline risks and fears of disruption to global trade were the main culprits for this volatility, which caused stocks to end the quarter down more than 10% from their all-time highs (the classic definition of a market correction).

While talk of trade wars and other conflicts (correctly) dominated headlines, there is some good news on the political front. In late March, reports surfaced that North Korean Leader Kim Jong-un visited China, where a meeting with China's President Xi is said to have resulted in an agreement that includes a framework to denuclearize the Korean Peninsula. This comes as a welcome reprieve from anxieties in the region and could serve as a major diplomatic and foreign policy win for the Trump Administration. Additionally, while fears of a trade war are front and center, so far there is little evidence of disproportional retaliatory tariffs from foreign trade partners. Furthermore, many have noticed that the harsh rhetoric from Washington has often been diluted in practice. The news of steel and aluminum tariffs, which initially sent the stock market lower, proved to be little more than "for show" as the U.S.'s major trading partners ended up being exempt from these tariffs.

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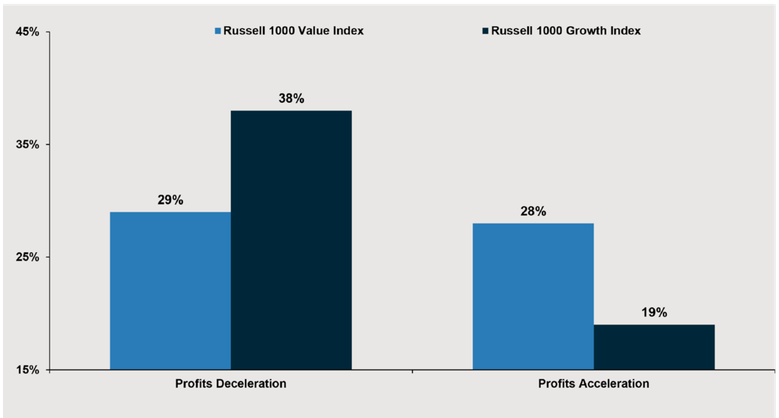
In guidance from the Federal Reserve, we saw the economic outlook for the U.S. raised with indications that neither inflation nor other transient factors are likely to have any material negative impacts. While noting concerns regarding what impacts a potential trade war might have, it is important to mention that such events tend to be short term with only temporary impacts on economies.

If history is any indication, it is unrealistic to expect markets to run up like they did in 2017 with such little volatility. Looking at the historical average of days where the VIX, a widely used index of volatility, was below ten (indicative of lower volatility), it is easy to see how 2017 stands out. Last year produced 52 days of low volatility while the historical average is 2 such days per year (since 1990). So far for 2018, we're seeing volatility begin to revert to its mean. In the view of the GGFS Investment Committee, the recent uptick in volatility is a return to a more normal level which has historically accompanied a healthy market environment.

As we've often stated, markets function in cycles; from 2014 through the first half of 2017, corporate profits were scarce. As such, investors were willing to pay a premium for companies that showed significant growth potential. As a result, we saw "growth" stocks outperforming their "value" brethren. Now that the economic growth is strong and corporate profits are soaring, history suggests that investors will be less willing to pay a premium for growth (as it has become more abundant), likely causing high-quality dividend stocks to outperform. As the following chart demonstrates, value stocks have historically thrived in a high-growth environment, outpacing their growth counterparts significantly:

The case for value investing

Style index performance during periods of decelerating vs. accelerating trailing 4 quarter S&P500 y/y



Source: (Top) Russell, S&P, BofA Merrill Lynch US Equity & US Quant Strategy; 1982-December 31, 2017, excluding the tech bubble. Style index performance during periods of decelerating vs. accelerating trailing 4 quarter S&P500 y/y reported EPS growth. (Bottom) Kenneth French, Goldman Sachs Global Investment Research. Fama-French HML value factor. Data series from 1947 – 2016.

And though we expect that high-quality dividend paying stocks, like we hold in our Dividend Buster Program, will outperform, we continue to advocate for a well-diversified portfolio that includes an array of different strategies. Where appropriate, we believe that this diversification can be found through our tactical ETF strategy and through an exposure to growth stocks held in our Revenue Buster Program.

As always, we highly recommend you schedule a review with your advisor to ensure your investment profile and policy stay current and up to date.

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Past performance is not a guarantee of future results.

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