



A Touch of Grey

Thoughts on the Aging Bull Market

The legendary band *The Grateful Dead* is not suited for everyone's taste. While they were the 2nd highest grossing concert band of the 1990's (Rolling Stones first), they were not considered "mainstream". Perhaps the hippie culture kept many away from enjoying the meaningful lyrics and talented musicians.

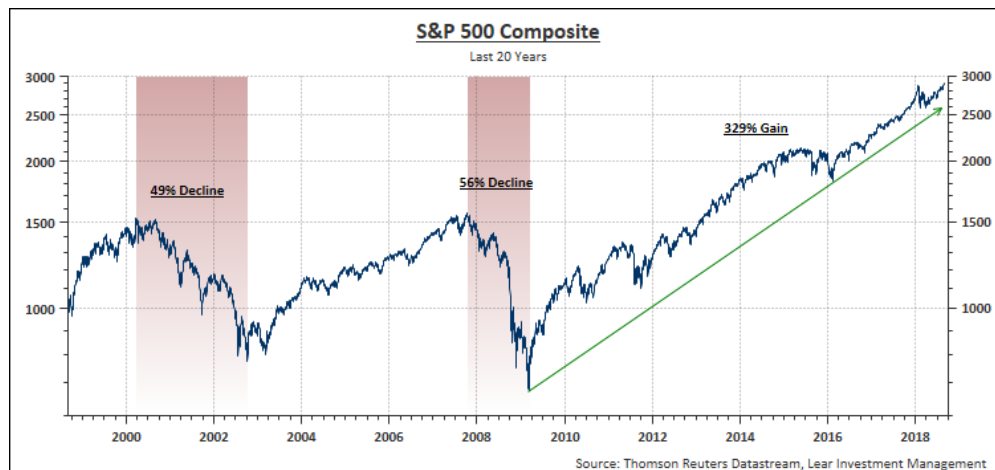
In 1987, the band released a song titled "A Touch of Grey". This tune was the only one in the band's extensive catalog to reach the *Billboard Top 10*. This was a dubious honor for the band as they never intended to have a "hit".

We interpret the song to be about growing older and gaining experience – the type of experience rewarded only to those who have fought the up-and-down battles of life. And, more than just earning the grey-hairs, life is about how we handle the aging process—with a little grace, love, and humor.

"I will get by, I will survive." – As investors, we draw parallels of this message to the current bull market. We are now in the oldest and least respected bull market in history. Can the economy and stock market continue to age gracefully? And, what have we learned in over two decades which brought two 50% declines in the stock market and now the largest run in history?

Long Strange Trip:

The bull market began on March 9, 2009 when the S&P 500 bottomed at 666. Depending on how you measure the length of the bull-run, many call this run the longest in history. In addition to passing the age record, the stock market has also closed at an all-time high of 2,900. Below is a chart of the last 3 market cycles with the current cycle underlined.





Light a Candle, Curse the Glare

Along the journey, we weathered calls for a double-dip recession in 2011, a surprise Chinese Yuan devaluation in 2015, Occupy Wall Street, the passing of Steve Jobs, a Greek crisis (or two), \$120/barrel oil, \$30/barrel oil, two years of rising interest rates, Brexit, fear of nuclear war with North Korea, countless tweets, trade war with China, and daily calls for the end of the bull market.

We are proud to have kept our clients invested in a high allocation of stocks (with technology focus). Now, the real question – What is Next for Capital Markets?

Every Silver Lining's Got A Touch of Grey

We recognize the several challenges the market faces to climb higher. The China trade war is the most concerning. A close second – increasing interest rates. However, we learned from the 2008 *Panic* – it is not always the snake you see that bites you. Thus, we remain vigilant for other potential dangers.

Rising interest rates usually initiate the end of the cycle. But, just because the market is aging, it does not mean it is time to give up. The golden years can be productive if we know how to navigate. The following are thoughts on today's capital markets:

- 1) The old rule books do not fully apply to this unique set of circumstances. Be careful buying traditional “defensive” stocks – like utilities and consumer staples.
- 2) The Fed brought interest rates to the lowest point in history. The low starting point and gradual expansion can lead to an extended recovery period. Stocks still look attractive relative to bonds.
- 3) Technology is no longer an aspirational expenditure, but a necessity. Cyber security spending is not a luxury reserved for only up markets.
- 4) Technology spending helps business become more efficient – key to future growth.
- 5) The amount of data generated by the Internet of Things and machine learning is important to the economy. This trend is in early stages.
- 6) Staying balanced in a portfolio is vital. Short duration bonds are an important part of the strategy at this stage. Maintaining liquidity to meet living expenses during a decline is the key to making it through a down cycle.
- 7) Being nimble and tactical is vital. Portfolio's should adjust to changes in the data.



In Conclusion:

We recognize stocks have experienced strong appreciation and carry valuations reflective of an optimistic future. As we have learned over the years, it is important to remain balanced at this stage of market and be very selective of securities owned. The team at Lear is excited for the future and believe technological advances will continue to drive this mature bull market.

While we all yearn for youth, it is important to embrace the grey and use the experience to our advantage. We move forward with caution for warning signs, but remain optimistic we are well positioned for the rest of 2018.

*“Oh well, a touch of grey
kinda suits you anyway
And that was all I had to say
and it's alright”*

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