EMERALD
ASSET ADVISORS, LLC

Investment Strategists for
Successful Families

October 5, 2016

Thank you for reading GreenThought$. It is our privilege to provide you with our insight on current financial market events and our outlook on topics relevant to you.

Third Quarter 2016: Investment Market Summary

May you live in interesting times, goes the old supposedly Chinese curse, although the original expression was probably closer to " May you experience much disorder and trouble in your life." Looking at the four newsmakers above, we can all agree that we do indeed live in interesting times, particularly as we consider our portfolios and how best to make investments. Market volatility has picked up a great deal in the last couple of months, and these folks have all contributed.

The first two people need no introduction, and barring some completely unforeseen circumstance one of them is going to be the next president of the United States. Which one will be best for the markets? How will drug pricing be affected? Will more money be spent in the defense sector? Will banks face more regulations or less? There will be winners and losers but at this point in time it seems too close to call.

And how about Janet Yellen, the chairwoman of the Federal Reserve? At the September meeting there were three members that dissented from the decision not to raise interest rates, which is an unusual lack of consensus. Will Yellen’s Fed finally pull the trigger on the long expected rate hike, or like Lucy in the Charlie Brown cartoon, will she pull the football away at the last moment once again just as Charlie is getting ready to kick? The Fed funds futures, where market participants are putting money on the line, seem to predict a 50/50 chance of a rate hike. Given that most sectors of the bond market are richly valued, there is concern that investors may view the next rate hike as just the first of many.

And just who is the last fellow pictured above? That is John Cryan, CEO of Deutsche Bank. Deutsche Bank is the largest bank in Germany, and the bank that the International Monetary Fund (IMF) labelled the most systemically important global bank. The stock price has dropped about 50% in the last year as the bank looks like they might need a bailout, raising some to wonder whether a “Lehman moment” is in the offing. While the comparison is not accurate for several reasons, the troubles at Deutsche Bank do underscore the weakness in the European banking sector and the fact that there are still structural reforms that need to be made.

How did the various market sectors perform this past quarter? In general, it was a positive period in most financial markets, domestically and globally. U.S. large cap stocks were up 4%, U.S. small cap stocks were up 9.3% and international stocks were up 6.1%. Year to date, large caps are up 7.8%, small caps are up 11.5% and international stocks up 1.7%. The U.S. bond market was up .5% for the quarter, making the year to date return 5.8%. It should be noted that most of the strong quarterly performance took place early, as the month of September saw the S&P 500 unchanged, and the small cap and international stocks up just over 1%. The fact that returns were muted in the last month of the quarter may speak to investor nervousness about some of the factors we touched on earlier. The investment team at Emerald takes these concerns seriously, particularly in regards to the Fed’s apparent desire to finally raise interest rates. Some pundits argue that it’s a good thing if the Fed raises rates for the right reason, i.e., if the economy seems to be gaining strength. We agree, but a Fed policy mistake could be the biggest risk to the 8 year bull market the stock market has enjoyed so its actions bear watching.

While the risks to the markets are real, we want to end this newsletter with the following tongue-in-cheek chart from the website MarketSlant.com. There are always reasons to be cautious and market watchers have been calling market tops for the last 116 years. Over time, equities are considered to be the best place to be invested for growth of capital, but it all boils down to your timeframe, as well as your tolerance for taking the investment risk. Some of the downturns over the years have been steep and took several years to recover. If you have a long investment horizon you can afford to take on more risk. Those of you who are close to retirement, or already enjoying the golden years, may need to scale down the equity exposure to some extent, depending on your needs and overall financial position.

Please let us know if you have any questions about the investing environment in general, or in regards to how your portfolio has been positioned to respond.

Regards from the Emerald Team

Disclosure
Green Thought$

The information herein has been obtained from sources believed to be reliable, but Emerald Asset Advisors, LLC ("Emerald") does not warrant its completeness or accuracy. Prices, opinions and estimates reflect Emerald's judgment on the date hereof and are subject to change at any time without notice. Any statements nonfactual in nature constitute current opinions, which are subject to change. Projections are not guaranteed and may vary significantly.

Currency trading may involve significant risks, including market risk, interest rate risk and country risk. Funds or strategies that use leverage or shorting may experience substantial losses. The investment strategy presented is not appropriate for every investor and individual clients should review with their financial advisors the terms and conditions and risk involved with specific products or services. As with all investments, past performance does not guarantee future results.

Clients are urged to compare the custodian's account statements to the advisor's supplemental statements. Please contact us if you do not receive statements from your custodian.

As of August 2016, Schwab no longer sends month-end statements for those accounts where there has been no activity for the preceding month; these accounts will be receiving quarterly statements.

About Emerald

Emerald Asset Advisors, LLC is a Registered Investment Advisor (RIA) founded in 1998. For more information, please visit our website.