PORTLAND FINANCIAL PLANNING GROUP, LLC

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Comments on the market

Our last, January commentary warned of market unpredictability looking ahead. In fact, 2017 has so far proved very positive for global stock markets. Both developed and emerging foreign stock markets produced overall returns near 15% through June 30. Large-cap U.S. stocks gained 9.3% while smaller stocks had a lower return of 4.8%. Bond funds also delivered solid returns in the range of 2-3% for high-quality intermediate maturities.

As we look back over the year to date, one of the most notable items is how steadily markets have risen, despite political uncertainty and geopolitical tumult. Economic and corporate fundamentals largely look solid, with the trend forward still positive at this point. Inflation is lower, but also in the ballpark of the Federal Reserve’s 2% target. And global central banks don’t appear too aggressive in raising rates or tightening monetary policy any time soon.

Along the steady way in 2017, however, several established trends did reverse course:

- Foreign stocks outperformed the US equity market by a large margin.
- The US dollar fell in value against foreign currencies (partially explaining the last item).
- Oil prices plunged nearly 20% from their February peak.
- Growth stocks handily exceeded the performance of value-oriented investments.

Most of the recent reversals we’ve seen are consistent with, if not driven by, an unwinding of the so-called Trump trade. This is shorthand for the widespread expectation that Trump’s election and the Republican sweep of Congress would herald a period of inflationary, pro-growth fiscal, tax, and regulatory policies, unleashing the U.S. economy. Instead, as the Trump administration has gotten bogged down in a myriad of other issues, confidence in that economic scenario has eroded.

We tend to agree with Warren Buffett who recently said, “If you mix your politics with your investment decisions, you're making a big mistake.” We made no material changes to our investment strategy when Trump was elected, emphasizing the significant uncertainty around potential Trump policies. That’s not to mention the highly uncertain timing, implementation, and magnitude of their ultimate economic and financial market impacts. Therefore, the apparent unwinding of that narrative in 2017 hasn’t led us to fundamentally change course now.

Looking ahead, we know there will inevitably be shorter-term market surprises, including negative ones. Given the high level of complacency we’ve witnessed in the markets this year, we think stocks are especially vulnerable to a negative surprise. But where there is danger, there is also opportunity. Market over-reactions to shorter-term news or outcomes can create compelling longer-term investment opportunities for disciplined investors like us.

3% surcharge on high earners repealed

The 3% income tax surcharge on Maine individuals with taxable income greater than $200,000 has been repealed. The surcharge, the result of a citizen-led initiative in order to fund education, was originally passed by Maine voters last November and was scheduled to commence with the 2017 tax year.

Shorter settlement to reduce risk

Beginning Sept. 5, the standard settlement cycle for securities purchases and sales will change from three business days after the trade date to two days. The Securities and Exchange Commission approved this amendment to the existing rule in order to “provide benefits across the financial system by, among other things, reducing credit, market and liquidity risk, and as a result reduce systemic risk for U.S. market participants.” For investors, this will mean you’ll receive your proceeds a little faster after selling shares of an individual stock, bond or ETF (exchange-traded fund). And if you buy securities, you’ll have to be a little prompter about ensuring funds are available to cover the sale. The settlement cycle for most mutual funds remains one business day after the trade date.

Red means stop, green means go?

As any long-time reader of this newsletter knows, we find investor psychology and behavior an always fascinating topic. When you go online to look at financial data or to view your accounts, does your anxiety level rise when you see a number in red? Are you excited and happy when you see a number in green?

Jason Zweig, author of The Intelligent Investor, offers a new insight on investor biases in his Wall Street Journal article “It’s the Little Things that Can Color an Investor’s Outlook.” Finance scholars conducted a series of experiments that presented investors with scenarios involving potential loss. If the losses were displayed in red, those participants became more risk averse vs. those viewing the same information presented in black. A similar pessimistic attitude about future returns prevailed among participants who viewed charts of falling stock prices displayed in red. However, the colorblind control group remained unaffected.

When making financial decisions, add this to the myriad of factors that may affect your perceptions and, consequently, your decisions. Suggestion: print out financial data in black ink only! (It will also save money on those expensive color cartridges.)

Best wishes for the rest of summer,

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