April 2017

CALDER INVESTMENT ADVISORS

Quarterly Update

Calder's Comments

The "Trump Rally" or "Trump Bump" continued into 2017. As the numbers in the chart indicate, the last five months have been very kind to equities.

The most recent part of this equity rally has largely been based on hope. There is hope that a Trump administration will lower federal regulations on business in the United States, hope for lower business and personal tax rates, hope that spending on infrastructure will rise, etc. Since the market moves as much on emotion as actual data, hope has spurred on an extended equity rally.

The equity rally has not gone unnoticed by investors. Over the last three years, there has been a major flood of money that has moved into stocks: $400 billion in 2014, $400 billion in 2015 and $500 billion in 2016. The recent success of the S&P 500 Index has also caused a large portion this money to flow into index funds. Over 1/3 of these new inflows have found their way into index-based investments.

One the one hand, massive inflows into passive index funds might seem like a good thing. Index funds have extremely low administrative costs, are well diversified, and recently have outperformed their actively managed counterparts. On the other hand, index fund portfolios don't make any decisions on where to invest money. Money comes in, all stocks in the index are purchased. Good stocks, bad stocks, overpriced stocks and value stocks are purchased when you buy an index fund. Because most index funds tend to be capitalization weighted, the higher percentage of new money goes to the market's largest companies. Cheaper and more defensive stocks will be relatively ignored by this process. This could set up the market, and index funds, for a greater fall should investors abandon the momentum stocks that have grown to become such large components of the index.

This indiscriminant investment into index funds has continued to make this market advance, maybe further than it should. Investors need to keep in mind that when this trend reverses, steady outflows will require all stocks in the index to be sold. As a hopeful influx of money can cause a market to rise beyond its intrinsic value, outflows of money can quickly reverse this trend and cause markets to fall substantially, sometimes below their intrinsic value.

Trump Rally – numbers through March 31, 2017

	First Quarter 2017	Since Election (11/9/2016)
S&P 500 Index	6.1%	11.4%
Nasdaq Composite Index	9.8%	13.8%
Dow Jones Industrial Index	5.2%	13.8%
EAFE Index	7.4%	9.7%
ACWI Index	6.9%	10.0%
US Aggregate Bond Index	0.8%	- 1.3%

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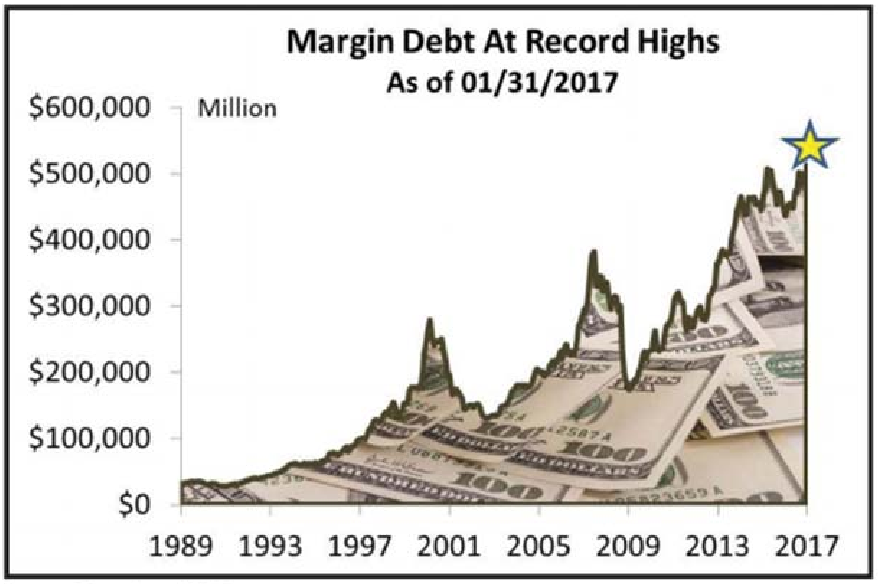
Sir John Templeton was quoted as saying, "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." A recent survey of investment advisors by Investor's Intelligence noted that bullish sentiment has soared to its highest level in 30 years. Consumer confidence has hit a 16 year high. Price to sales ratio of the median stock has risen past levels seen in 2000 and 2007. Levels of margin debt are at a record high (see chart). When you realize that the last time bullish sentiment was this high was in 1987 and consumer confidence was last this high was the tech bubble of 2000, Templeton's words take on more relevance and urgency.



Source: Bloomberg, NYSE

Over the last 2-3 years, market valuation metrics have been elevated. Now these metrics are close to their 2000 peak and the valuation of the S&P 500 stocks are as high as it's ever been. Market tops can develop over month or years. While we never claim we can "time the market", we have been investing with an eye on where we are in the investment cycle. We do believe that index funds have their place in building a sound portfolio, but active funds that purposely select stocks and/or bonds have an important place too. We believe we have found managers that will perform well over all parts of the investment cycle, particularly when markets may be overvalued.

Thanks again for choosing Calder Investment Advisors as your investment advisor. We are always available to review or discuss your account. Contact us anytime.

Other Services from Calder Investment Advisors

- Comprehensive Financial Planning
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- Retirement Income Planning
- Corporate Retirement Plans
- College Savings Accounts
- Social Security Timing

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