

July 2017

CALDER INVESTMENT ADVISORS

Quarterly Update

Calder's Comments

Markets around the world experienced solid gains in the first half of 2017. Domestic stock indexes (S&P 500, Dow Jones Industrial, Nasdaq Composite, Russell 2000, etc.) as well as foreign and emerging market indexes all produced positive returns. Bonds also did their part with the Barclays US Aggregate Bond Index producing positive returns.

Analysts' forecasts for 2017 were the least bullish in more than a decade, yet the 8.2% return for the U.S. equity market was the best first half in the last 19 years. These same analysts are forecasting less than an additional 1% increase by year-end. This is a tricky business. As Yogi Berra once said, "It's tough to make predictions, especially about the future."

So if analysts are not all that positive, why does the equity market continue to perform so well? Analysts are focused on valuation and the economy. Leading Economic Indicators have suggested that the economy is not growing, but may even be declining. The S&P 500 Index is currently trading at a price-to-earnings ratio of 23.9, more than 50% higher than its historical average. It's easy to see why analysts might not be very bullish.

Then there is market sentiment. Investors are

feeling great. The current U.S. bull market (one that has not declined by 20%) has lasted over 8 years. Over the last 8 years, there have been 4 declines of 10%-20%. If this bull market lasts another 14 months, it will be the longest EVER. No continuous bull market has ever made it past 10 years.

Extended valuations and investor appetite for risk are early warning signs of a coming change in the market. Recent E*Trade commercials try to capitalize on many investors' desire to take on more risk. In the 1990s, we were introduced to how easy it was to make money trading on-line. The E*Trade Baby first appeared in 2008, a year the S&P 500 Index lost almost 37% of its value. Today, it's the "Don't Get Mad. Get E*Trade" campaign where even the "dumbest guy in high school" just bought a mega-yacht because he invests on E*Trade.

(See all commercials at

<https://us.etrade.com/1/dont-get-mad-get-etrade>)

One of our larger holdings is in IVA Worldwide (IVWAX). This fund invests globally with the long-term goal to perform better than the MSCI All Country Index, combining that goal with a short-term goal of protecting capital. IVA Worldwide manages over \$8 billion and their portfolio is currently allocated as follows: 50% stocks, 6% gold, and over 40% in cash. This

Calder's Comments - continued from page 1

is not a permanent allocation. It's that current valuations indicate that new investments have a much greater chance of declining in value rather than adding positively to the portfolio.

This is true active management, different from the traditional approach of most mutual funds. IVA Worldwide is trying to deliver returns that are as absolute as possible (i.e. returns that try to be as resilient as possible in down markets) while many mutual funds try to deliver good relative performance (i.e. try to beat a benchmark). A fund that tries to deliver good relative performance would be fine with being down 15% if their benchmark is down 20%. We do use relative return funds, but not for your entire portfolio.

It's different than an index fund. If you read our last quarter's comments, we talked about the current popularity of index funds. These passive investments blindly allocate money to a list of stocks without evaluating the relative value of those investments. We do use index funds, but not for your entire portfolio. Investors that rely too heavily on relative return or

index investments could see greater losses if this 8 year bull market decides to bring valuations back to normal.

We'd love to talk with you about the investments in your portfolio and how they were chosen to help you meet your specific goals. While many of you are out enjoying your summer, know that we are here each day to keep an eye on your portfolio. After you finish this newsletter, contact us so we can get a date on the calendar to get together once your summer plans are over.

We are investors who are in this for the long-term. It is our privilege to partner with you to help achieve your financial goals.

Other Services from Calder Investment Advisors

- Comprehensive Financial Planning
- Life Insurance Analysis & Consulting
- Traditional, Roth & Rollover IRAs
- Stocks, Bonds, Mutual Funds & ETFs
- Retirement Income Planning
- Corporate Retirement Plans
- College Savings Accounts
- Social Security Timing

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