

CORE Comments

ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

February 18, 2018

Interim Remarks

The sharp and swift decline from late January highs quickly gave way to an equally sharp and swift rally from the early February lows.

We abstained from selling equity positions as the markets fell, on the notion that they would soon recover. At the end of the week just passed, we reduced equity investments by a bit, in response to the clear evidence that stock markets have become much more volatile.

Big swings up and down lie ahead.

After my letter from earlier this month, written while stock markets were engulfed with selling, the market had two more sharp declines, then a sharp turn upward. At this week's end, the market notched its sixth successive gain, in a rally that has lifted it by 7.9 percent from its recent low, leaving it 4.9 percent from its late January high and up by 2.2 percent from the end of 2017. The moves down from late January, then back up from the February 9th low have been unusually swift.

Given the favorable conditions I enumerated in my recent letter, including synchronized economic growth around the world, rising corporate profits, and the favorable effects for corporations as a result of the recently-enacted tax legislation, it has seemed likely to me that stocks markets will rise to new highs in 2018. Because of that view, I did not initiate any selling of equity positions in client accounts during the recent sharp decline. However, on Thursday and Friday of the week just ended, as the market pushed higher in its recovery, Core reduced equity positions in client accounts by a modest amount.

This may seem contrary to my view that the stock market will make new highs. We took the action, however, in light of the recent extreme volatility in stock prices. The long quiet period in the stock market that characterized all of 2017 has, in my view, come to its end. I suspect that in the coming weeks the market will present more episodes of sharp and sudden declines and more of the recent sharp advances. In this volatile environment, we will benefit by holding fewer equities and more cash than were appropriate last year.

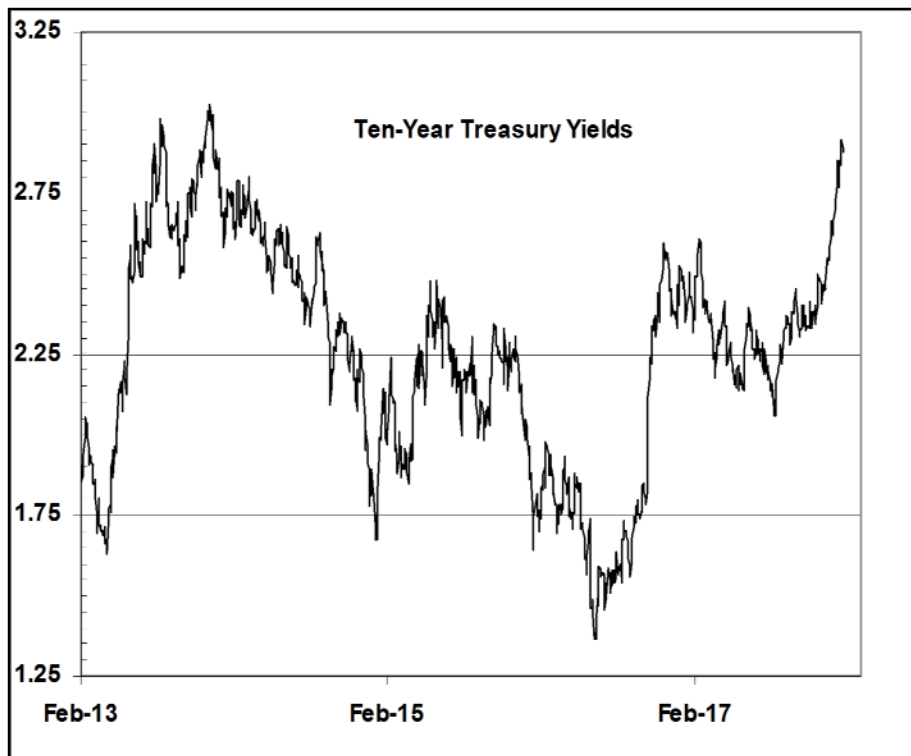
By

Jack Mayberry

Bonds. Apart from these sharp swings in stock markets and probably causing a bit of the recent selling, the US bond market has presented lower bond prices and higher yields. After the ten-year treasury bond, the world's benchmark for fixed income investments, set an historic low in yields at 1.34% in July 2016, yields moved slowly upward until the surprising election in November 2016. With Mr.

Yields on the ten-year Treasury bond have reached their highest levels in four years and the decades-long bull market in bonds is well and truly finished.

Trump's victory, bond investors expected inflation and higher federal deficits. Yields jumped from 1.77% at the end of October 2016 to 2.36% immediately after the election. Then, for the next year, the ten-year yield was stable between 2.0% and 2.4%, until December 2017, when bond prices began to fall steadily and yields to rise. Last week, the yield on the ten-year reached 2.93%, its highest in four years. Presumably, this rise in yields and fall in bond prices arises from the Fed's slowly tightening monetary policy, the still-modest increase in inflation, and the expanding US economy.



Because bond yields may rise further and bond prices fall more, we are left with some unappealing investment choices: we can stick with our investments in US bonds while they may fall in price, or we can retain higher money market fund positions, even though these still yield very little. But money market funds will not lose principal value as interest rates rise, while bonds will fall in price in that environment. We expect to keep the proceeds of our recent equity sales in money funds for the time being, perhaps until the rather-clouded prospect for future interest rates becomes clearer.

If you have questions about Core's investments for you, please do not hesitate to contact Margo or me.

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