CURBSTONE
FINANCIAL
MANAGEMENT
CORPORATION

From the Curb

Letter to Clients

Quarter Ending September 30, 2017

From a line in a traditional Scottish poem: **"From Ghoulies and ghosties/ And long-leggedy beasties/ And things that go bump in the night/ Good Lord, deliver us!"** As active managers, we constantly review and strategize around traditional qualitative investment concepts: macro-economic indicators, sector rotation, corporate profiles and economic prospects. In addition, we maintain a vigilant eye on exogenous developments that are often impossible to predict, but which can impact the investor experience over the short run. We seem to be living in a time when these exogenous factors are front and center in the investor mentality.

On the surface, the fundamentals of the economy appear quite positive. Manufacturing is strong, employment continues to rise; essentially now at a level considered to be full employment, and corporate revenues and earnings are positive. The Fed's modest interest-rate hikes have been sufficient to hold down inflation, without choking off the economy and market volatility may be at historic lows. But what is out there that could go "bump in the night"? There are numerous topics for concern, each which can be examined more closely in future quarters, but here is a partial listing of what we are focused on:

Many analysts have dubbed this year's market action the "Trump rally." It is built upon several assumptions, including a new approach to health care, a revised tax code, and increased capital spending. If these are the three legs of the market rally stool, each leg that falters will damage expectations already built into the markets. Health care expenditures constitute 17% of the U.S. economy. For now, health care revisions are dead in the water. Some tax revisions have bi-partisan support (corporate tax reduction, overall simplification), but full details are yet known, and if the bill represents enormous benefits for the wealthiest citizens, such bi-partisan support will drift away. The current hurricane disasters will stimulate capital spending without any Congressional action, adding to employment and GDP in the coming calendar quarters. Overall, the markets seem to be hanging mostly onto a vision of **tax reform,** and any derailment will not be well received.

So far, the "conflict" in North Korea is mostly a war of words. The consequences of miscalculation here are enormous for the millions of citizens living in this region. And, if acting essentially alone, the United States can ill afford another war. Will the act of choking off critical supplies to North Korea serve to appease or incite?

741 Chestnut Street, Manchester, New Hampshire 03104   603-624-8462   FAX: 603-624-8274

The current bull market recovery has been supported by Fed monetary policy and has been carefully managed to create "Wealth Effect" spending by consumers, who drive two thirds of the economy. The Fed is expected to continue modest interest-rate hikes and, perhaps more importantly, to reduce their very inflated balance sheet of debt. At what point will those actions serve to choke off an artificially inflated economy? What benefits do higher rates have on individuals living on fixed incomes?

Have you been reading, wondering about "cryptocurrency"? The eternal creativity of the financial world! Most of the news focuses on Bitcoin, its viability and its price volatility. Currently Bitcoin is being traded by speculators and it is not a suitable investment for our clients. However, the more esoteric aspect of this new technology is the block chain algorithm underlying the creation of cryptocurrency. This technology is currently being used and developed by IBM, APPLE and other major companies around the world. This technology may add security to all types of business and consumer transactions. Will there be benefits or detriments to the investor community? This is clearly a work in progress that is attracting major capital investment from notable players.

All things considered, we believe we are entering a phase when active investment management will yield meaningful benefits to investors. We have never believed that robots can or will serve as adequate active managers or fiduciaries. The age of "robo" or computer-driven investing may have run its course. We will continue to manage to your financial objectives using a well-developed process that relies on both qualitative and quantitative inputs and a deep understanding of your risk profile. We appreciate the opportunity to serve as your investment advisor, and invite your inquiries and input.