BUILD & PROTECT

A PUBLICATION OF
CATAMOUNT
WEALTH MANAGEMENT
V27 October 2017

What Summer Slowdown?

Stocks in the third quarter shrugged off the decades-old adage "sell in May and go away" by ending at yet another record level. For the summer months, which is historically thought of as a down period, the S&P 500 was up 4.0%, bringing the year-to-date gain to 12.5% through the end of September.

With markets continuing to exhibit strength and resiliency, it's hard to believe that on August 9th we passed the 10-year anniversary of the decision by a Paris-based bank to wind down three of its hedge funds concentrated on US mortgages. That turned out to be the catalyst for the interbank lending market to dry up as trust in the market quickly evaporated. This, unfortunately, set off a series of events that concluded with the Lehman Brothers default 12 months later and the "Great Recession."

As this market rally continues to reach new highs, volatility remains relatively dormant with the VIX Index (the so-called "fear gauge") hovering near all-time lows. In fact, last month was the least volatile September in history, and now the length of time the S&P 500 has gone without a 5% correction is near a record. This calm is partially explained by the Federal Reserve's quantitative easing that led to a tremendous rise in asset prices. But now it's about to reverse course through quantitative tightening. We expect this to raise volatility and make stock selection paramount.

In addition, corporate earnings continue to be robust. There is much debate among market pundits that earnings per share growth is artificially inflated by corporations buying back their publicly floated stock, contributing to the market's strong rally over the last two years. At Catamount, we believe that notion is unfounded. According to the most recent data from S&P Dow Jones, share repurchases for S&P 500 companies amounted to just over $120 billion in the second quarter of this year. This was a 9.8% decrease from the first quarter and down 5.8% year-over-year. Furthermore, so-called "buybacks" were down 14.5% for the 12-month period ending June 2017. This decline in buybacks, coupled with corporate profit margins near all-time highs show us that the market can rally further as earnings growth is structural and genuine in nature, instead of artificially inflated.

Moreover, we think there are additional profit growth levers that are not entirely priced into the market. The ongoing weakness in the US dollar should spur US-based company sales. Enduring hopes for tax reform could also be an upward surprise given the recent plan outlined by the White House. Catamounts attributes a higher potential to tax reform passing than most other market participants. Given these two undercurrents, we see market dips as short-lived and rather small in magnitude that could prove to be opportunistic entry points. Additionally, despite the Fed's recent announcement, it appears to be less "hawkish" than earlier this year, which lowers the probability of an overly tight monetary policy. We think the Fed is likely to be very methodical in the near-future with normalizing interest rates.

Although all appears well in the market, there are several dynamics unfolding that we are monitoring. Those include valuation levels in some asset classes, the size of central bank balance sheets and sovereign debt levels, multi-century lows in interest rates, investor complacency, a change in tone at the Federal Reserve with a possible new Chairperson, intermittent hostilities with North Korea and other nations and even the level of populist political support around the globe. All these elements force us at Catamount to keep a close eye on potential shocks to the system.

However, as the Fed's rate hike "hints" are put into place, equities become even more attractive due to a strong economy. As such, we feel equities are not currently overvalued given where interest rates are now and where they are expected to go. We're already starting to see this shape up with traditional safe-haven assets like treasuries and gold underperforming the broader equity market. Therefore, we remain positive on the market.

We hope you had a fantastic summer and are enjoying the beginning of a pleasant fall. Please let us know if you have any questions – we are here to assist you!

— The Catamount Wealth Management Team

Family Money: Opening the Lines of Communication

In life and money, timing is often everything. And that's particularly true when it comes to sensitive family discussions about retirement security, eldercare, and estate planning.

"These discussions aren't always easy, but there can be real emotional and financial consequences when they don't happen or lack sufficient depth," says John Sweeney, executive vice president of retirement and investing strategies at Fidelity. "It's absolutely critical that families come together to sort through important matters related to such things as retirement preparedness, caregiving responsibilities, estate planning, and the tax implications of an inheritance."

"Ideally, detailed conversations on these matters should take place well before retirement, to ensure that families are adequately prepared," says Sweeney. "Although it's understandable that parents may have sensitivities and want to delay discussing personal financial matters, the best strategy is to set these concerns aside and have frank discussions sooner rather than later, as it's very possible children will have to make some financial and health care decisions for parents later in life. This will give you the time needed to anticipate, plan, and make smarter, more informed decisions."

How to build a better discussion:

Initiate family discussions earlier. Ask as many detailed questions as you can. On all subjects, the study found that the earlier and the more detailed the conversations are, the greater the sense of preparedness.

Follow the "voice not vote" rule. When it comes to finances, it's not a democracy. While all family members should have a role in the planning process, the ultimate decisions about the parents' finances, health care, and eldercare should be made by the parents themselves.

Make sure the right people are talking about the right things. And try to make sure they are talking at the right times, in the right way. Advance planning can help you define roles, determine what conversations to have, and choose when and how different people will be involved.

Commit to follow-up conversations to keep the dialogue going. Keep the momentum going and schedule as many get-togethers as you need, and revisit plans at least annually to make sure they still make sense.

Catamount invites you and your family to start the conversation

TIPS FOR FAMILY MEETINGS

	PARENT	CHILDREN
Understand your goals and objectives	What do you want out of retirement? Identify and be prepared to share your hopes and dreams.	Be ready to discuss any concerns about your parents' plans.
Know your financial situation	Know your income sources, estimated expenses, medical costs, and coverage.	Help your parents "test-drive" their plan. What's missing?
Make sure your estate plan and documents are up to date	What if you became incapacitated? Who would take care of you? Have power of attorney? Be your executor or trustee?	Think about the best person to handle each responsibility. Who lives closest and is most accessible? Best with money?
Know where key documents and contacts are	Make a list of important documents in case of an emergency. Store them in a safe place.	Help your parents identify what the documents are. Know how to access them.

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