VAN LIEW TRUST COMPANY

as we see it

Fall 2016

THOUGHTS FROM OUR CHAIRMAN

One of the questions frequently asked by investors is: "Where is the bubble?" If a bubble is suspected, an investor has to decide on a game plan to navigate him or her through a potential economic and market downturn, yet remain positioned to benefit while markets rise. Low interest rates over a long period have supported the markets and shareholders. Beyond market forces, government intervention helped orchestrate this ultra low rate environment too, so we are in uncharted territory.

In some of the past issues of AWSI, we expressed concern that the consumer was holding back. Despite only modest wage increases, it appears that the consumer is now comfortable spending some of the perceived rewards from higher real estate values, appreciating retirement plans and continued savings at the pump. Capital spending, however, remains modest which in part may be caused by corporate America's reluctance to make significant investments in its businesses until there is a clearer picture on a number of fronts. As our associate Ted Staples points out in this issue of As We See It, a sound investment strategy focusing on your individual long-term investment objectives boosts the prospect for a more positive outcome.

Alfred B. Van Liew

Sound Investment Decisions for You

Edward K. Staples

It is hard not to feel a sense of excitement over the recent strength in stock and bond markets. Everyone hopes the post-recession gloom is finally far behind us and we are in the midst of a sustained recovery. Investor desire for a continuing positive investment environment, however, is still tempered by broader concerns of a crumbling infrastructure, political infighting, voter disenchantment and muted company earnings reports. Adding to these concerns is a drumbeat warning of the potential for a post-Brexit, deepening global economic slow down. As a result, many investors are on the fence, caught between choosing near term protection of assets versus taking on market risk for potentially longer term rewards.

Conflicting investment signals are broadcast by the media in a constant market chatter. Like sports writers filling their daily columns' many news outlets offer up conflicting opinions that are occasionally helpful, often biased or just plain confusing. Is it possible to decipher this information onslaught? How do we judiciously participate in the current markets – or should we even be in them at all?

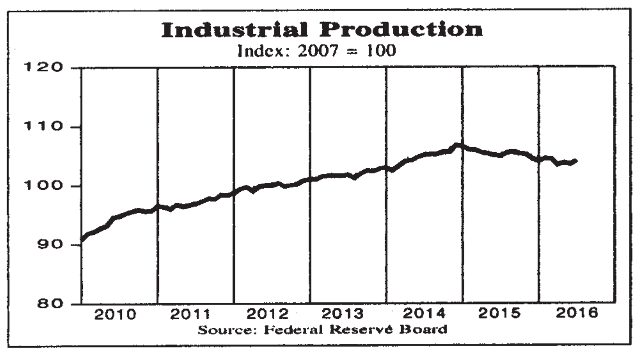
First, recognize much of the media chatter really is just about filling time and selling advertising space. It is easy to spin one's wheels in a "what if" and "if only" cycle of mental gyration. So, instead of looking for the next sure thing or tucking dollars under your mattress, focus primarily on the specifics of your individual long term investment objectives. As you age, the time horizon to achieve desired investment goals grows shorter. By acting now to make any necessary adjustments you could confirm continued viability for future success. Think of it as the market working for you, rather than the other way around.

Next, look at both global macroeconomic data and individual company data to develop a top down/bottom up perspective for market participation. Prudent investors look for historically impactful clues generated by a number of economic indicators. The three main categories of economic indicators are: leading (forecast), lagging (identifying trends) and coincident (assumptions of the present). Leading indicators - where we may be headed - include employment statistics, inflation, consumer activity, manufacturing, inventory levels and housing. Lagging indicators – confirming stats – include changes in GDP, wage movement, unemployment rates, currency strength, inflation and interest rates. Both leading and lagging indicators are analyzed alongside coincident indicators – inclusive of real earnings, employment and industrial production, just to name a few. While relatively fluid, these indicators are weighed against current market conditions, individual company earnings, management strength and sales forecasts to form a framework of the general health and condition of the economy.

Lastly, some of the market participation questions are guided by having a portfolio specifically weighted with respect to your own individual time horizon, risk tolerance and liquidity constraints. Appropriate security weightings and sector structure, reviewed and adjusted periodically within a portfolio can offer more effective downside protection and consistent long-term growth than a simple 'buy a company and hold' process.

While there is no data to definitively signal how investors should participate in the markets, guided by economic conditions and trends, there are steps to take to reduce risk and enlighten the decision making process. For our money – and that of our clients – the approach outlined here is more prudent for making sound investment decisions for you, rather than following the latest "sage" chatter from the media.

T R E N D L I N E S



While the consumer oriented economy has muddled along at modest growth levels, manufacturing has struggled. Industrial Production has been seen negative growth for 11 of the last 12 months even as the ISM Manufacturing Index has been above the all-important 50 level during that period. Fed rate hikes seem unlikely to improve this situation.

We would be delighted to meet with you to share comments about this article, or to review your portfolio in detail.

PROVIDENCE
Ask for Joe Healy or Ted Staples

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NEWPORT
Ask for Elizabeth Gordon Dellenbaugh