

The Tumultuous Geopolitical Landscape & Your Portfolio

Investors were just getting comfortable with the idea that market volatility had calmed down. Employment gains were inching along in the right direction. Congress had left tax rates unchanged and resolved that issue for the next couple of years. Feeling comfortable with their profit margins and hefty cash balances, companies had begun spending and investing. We had even worked our way past the risk of overextended governments of Europe.



So, just when we were hopeful that the unrest in the other Middle Eastern countries would find an orderly resolution similar to that in Egypt, enter the brutality of Gadhafi in Libya and the horrific natural disasters in Japan. The stock market reaction was sharp as it lost ground. While we think it may have a little more to go, we also believe the market will end the year on a strongly positive note.

You've probably heard the phrase, "risk on, risk off". If you're like me, every time you hear it you are reminded of the original "The Karate Kid" movie and the character of Mr. Miyagi repeating his training instructions, "wax on, wax off". The only connection, really though, is in the simplicity and opposition of the two acts in each phrase.

When traders are comfortable with the predictability of a benign investment environment, they buy securities with more uncertain short term returns—like stocks. Risk on. When trouble starts again, they pull in their horns and retreat to the safety of cash and US Treasuries. Risk off. The stock and bond markets respond in kind. The turmoil in the Middle East and the uncertainty created by the tenuous situation in Japan pushed traders back to a "risk off" posture.



Believe it or not, long term investors—like our clients--can benefit from this volatility. For example, the 10 Treasury, which hovered around 2.5% last fall, hit 3.75% in early February as a result of inflation concerns and money moving from stocks to bonds. Sensing the above average returns of the bond market were coming to an end, we had begun reallocating assets for our clients last September. We trimmed bond holdings and increased stock allocations as appropriate. But the move from 2.5% interest rates to 3.75% interest rates in a few months is big move, so we stopped for a while. This recent “risk off” trade gave us the opportunity to reallocate portfolios a little more as we took advantage of a bond market where prices had increased and stocks had temporarily sold off.

We don't hold ourselves out as market timers. We prepare longer term investment plans with strategic asset allocations for all of our clients. However, sometimes the shorter term realities of our interconnected global markets create tactical opportunities where we can add value. We believe this is one of those times.

We always welcome the opportunity to discuss with our clients the strategies we have created for them. If you think it would be helpful to have a conversation with us, please give us a call.

Warmest regards,

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