Shorepoint Capital Partners LLC

Identifying Opportunity. Navigating Risk.

Newsletter – August 2017

MARKET TRENDS 6/30/2017

US Stock Markets	Q2	YTD
S&P 500 Index	3.09%	9.30%
S&P MidCap 400 Index	1.97%	6.00%
Russell 2000 Index	2.46%	5.00%
Int'l Stock Markets		
EAFE Index	6.12%	13.81%
Emerging Mkts Index	6.27%	18.43%
Fixed Income		
Barclays Intermediate Gov't/Credit Bond Index	0.94%	1.73%
Barclays Capital Muni Bond 3 Year Index	0.54%	1.81%
Commodities		
SPDR Gold Shares (NAV)	-0.31%	6.96%
Goldman Sachs Commodities	-5.46%	-10.24%
Real Estate		
Dow Jones US REIT Index	2.59%	5.89%
Yields	**6/30/2017**	**12/31/2016**
6 Mo. US T-Bill	1.14%	0.61%
10 Yr UST	2.31%	2.45%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

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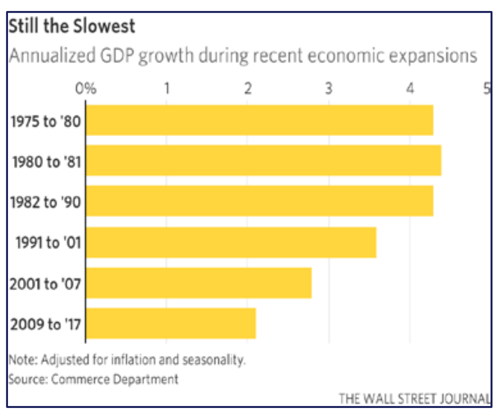
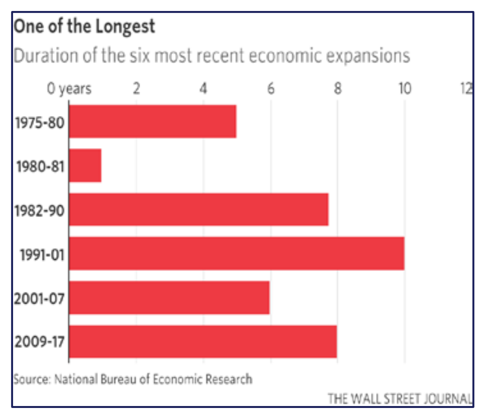
"More of the Same – Ho Hum Market!"

It has been more than 8 years since the bottom of the most severe recession since the Great Depression with the S&P 500 Index up over 250% since the March 2009 low. Interest rates remain low, even as the Federal Reserve gradually raises interest rates and begins to unwind its balance sheet through "quantitative tightening". Unemployment levels have dropped by almost half to 4.7%, but the labor participation rate (percent of the population that is either employed or seeking work) is only 62%. While the growth has been far lower than in the past, domestic GDP has chugged along in the 2% range for years. Stock market volatility is low, and the stock market continues to make new highs almost daily. We are reminded that the accuracy of a market is produced over the long term, and in a forward looking way, is the ultimate leading indicator. The recovery that has happened has been well-priced and predicted by the markets and those who have remain invested got paid for their patience and resolve. So what now?





At Shorepoint, we have fielded a number of inquiries about our comfort level being fully invested while the market continues to make new highs. This is a reasonable question as valuations of stocks and bonds are generally above historic norms, especially in the U.S. But valuations are not wildly out of whack with history, with the S&P 500 still trading within statistical striking distance of the 25 year average of forward price/earnings ratio of 16x. The record stock prices are being supported by record earnings and strong revenue growth in corporate America, which is bolstered by solid balance sheets and access to cheap money.

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"Unemployment levels have dropped…"

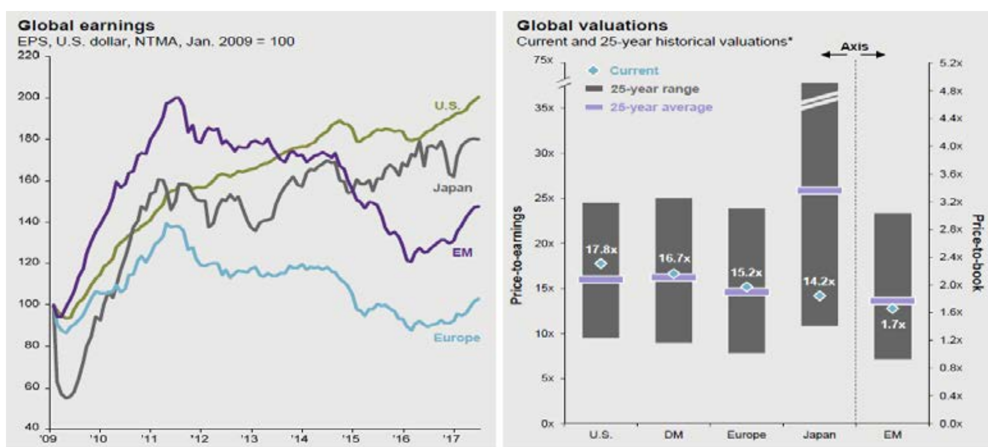
"GDP has chugged along in the 2% range for years."

"Stock market volatility is low…"

"… and the stock market continues to make new highs almost daily."

With that said, we hold a more cautious view today than in the past few years. Elevated valuations, an uncertain regulatory environment and extremely low volatility give us pause. Periods of low volatility cannot persist forever. We would not be surprised to see an increase in volatility or even a correction in the near to medium term, but it is important to remain committed to a disciplined investment approach. We remain invested in the market, but have made certain changes to our investment allocations that we believe are prudent no matter which direction the market heads.

As you may recall, Shorepoint has decreased the equity exposure of client portfolios to a neutral level within the various objectives we offer. We had been recommending clients overweight stocks by 5-12% for the last 8 years. But as U.S. stocks vaulted off the chaotic lows of March 2009, they are no longer particularly cheap in a broad sense and we are now neutrally allocated to equities. However, we are finding values in certain sectors such as health care and financials but it is becoming to more difficult to find bargains. Looking abroad, valuations appear to be a bit more reasonable, especially in emerging markets.



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

For several years, our firm has advocated for sensible diversification in emerging markets - both debt and equity - as well as in international holdings. Frankly, those positions didn't help portfolios much in the years 2013 to 2016. That has changed of late. Those small, listless positions that we have stubbornly held in portfolios have come roaring back returning over 20% in the last year. While they don't make up huge portions of client portfolios, they have served our clients well. We still think the global recovery is in its nascent stages compared to the U.S. economy which is more likely in the middle to later innings of the current recovery. We will continue to look for value and opportunity in both stocks and bonds in other countries than just the U.S.

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"…being supported by record earnings and strong revenue growth in corporate America…"

"…owning a diversified portfolio of quality assets at reasonable prices has proven to be a successful investment strategy over the long term."

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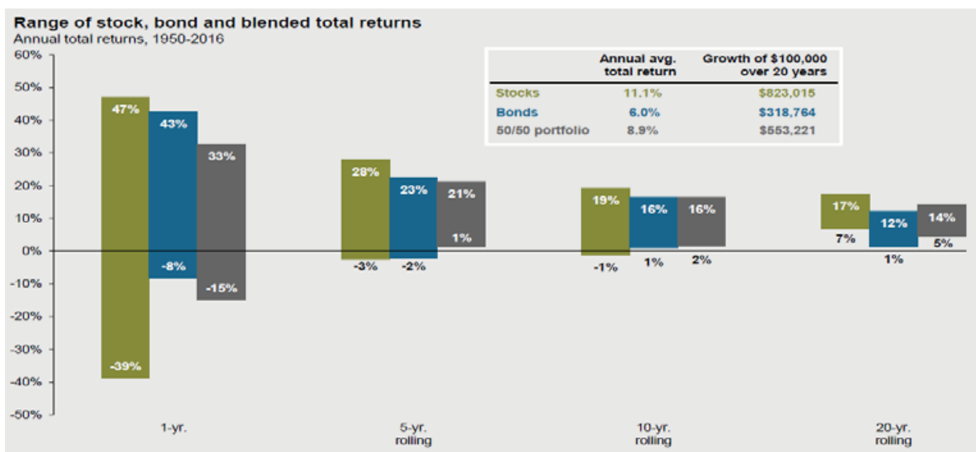
Conclusion and Looking Forward

As of this writing, the gridlock in DC has remained strong. The markets seem to celebrate this fact daily as Republicans have been unable to accomplish much of anything with their majority-on the legislative front - no border wall, little success on immigration laws, no repeal or replacement of the Affordable Care Act, no tax cuts (personal or corporate), no repatriation of dollars abroad, and no signs of an infrastructure spending plan. These are massive, complex goals with myriad of potential results and consequences. While some of these initiatives could prove a boon to the market if enacted (corporate tax reform, repatriation, infrastructure spending) there is no way to know how this might play out.



Source: Barclays, FactSet, Federal Reserve, Strategas/Ibbotson J.P. Morgan Asset Management.

We do know, however, that owning a diversified portfolio of quality assets at reasonable prices has proven to be a successful investment strategy over the long term. We will use market/stock volatility to add to higher quality stocks - companies that have a durable competitive advantage, solid balance sheet, robust cash flow, strong returns on invested capital and are attractively valued. In addition, we will continue to have an allocation of the portfolio devoted to contrarian companies (i.e. value stocks) that in most cases have underperformed the general equity market in the short-term. Overall, Shorepoint intends to stay the course, looking for and taking advantage of opportunities as they arise and generating attractive returns to help our clients meet their goals.