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MonacoCapitalManagement

TRYING TO HEAR OVER THE NOISE



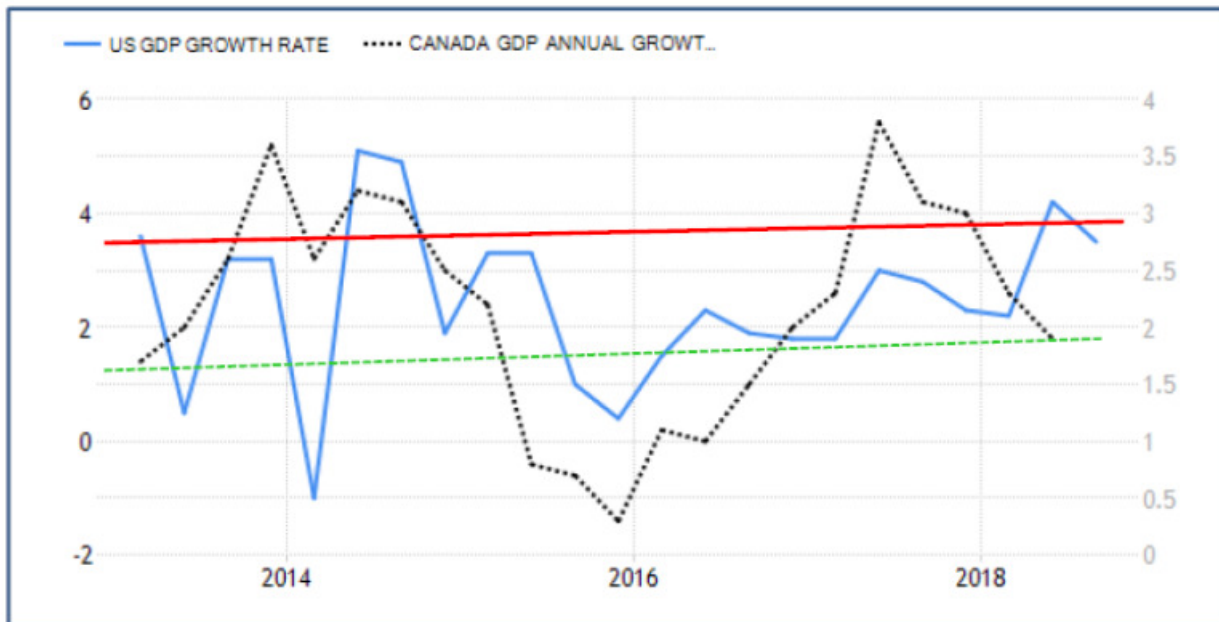
Source: Google Images

A valued client asked me recently about the origin of my newsletters. I explained that I have always personally written them based on my research and would never offer another writer's thoughts on my behalf to you. Instead, I am trying to convey what it is I am observing in the financial markets together with recommended practical actions. It is always my intention to propose pro-active actions before events or conditions occur rather than trying to retro-actively minimize the impact after the fact.

The picture above exemplifies a reality of the financial markets that has become more pronounced during the tenure of the current U.S. Presidential administration. What we have is an environment in which social and business media have amplified enormous amounts of both actual and purported information, giving trivial or inconsequential content as much priority in the process as critical material. This is typically referred to as **"noise"** which we must filter through in order to recognize the key information we need to work with, much like the individual in the photo trying to hear a phone conversation over the marching band.

Once we are able to “hear” the conversation we can develop appropriate strategies to ensure prudential and valuable investment management over time. **What I continue to hear is moderate but consistent post-recession global economic growth rather than explosive market recovery or looming market crash.** What have appeared as powerful new growth opportunities have typically corrected themselves over time. Conversely, there is no rationale for expecting an imminent collapse; despite the fact that this gradual growth trend has endured for the past 10 years, there has to be a compelling reason for recessions and depressions to occur rather than simply time having transpired. In the meantime, we will continue to see volatility creating false signals. But, falling from the first step of a ladder is far less painful than falling from the 5th or 6th step.

Rate of GDP Growth Last 5 years



Source: tradingeconomics.com
(Red and Green trend lines superimposed)

So, what is some of the noise we’ve been hearing which has been so distracting but not meaningfully contributing to fundamental economic factors:

- U.S. and geo-political posturing and threats particularly amongst international allies
- Introduction of tariffs as a bargaining chip
- The advancing and retreating of:
 - Cannabis stocks
 - Crypto-currency stocks
 - FAANG (Facebook, Apple, Netflix, Google) technology stocks
- The spectre of rising interest rates which have, in fact, occurred gradually rather than in the dramatic fashion of the rate shocks of the 90’s; most recently benchmark bond interest rates have actually declined
- Ill-timed economic intervention as such as the U.S. tax cut which has not materially stimulated economic growth and caused temporary equity market price appreciation as many companies have used proceeds to buy back shares, causing prices to rise, rather than investing in new production
- Seasonal tax loss selling

What’s the takeaway?

- Continue to manage expectations, avoiding the temptation to perceive short term movements as longer term trends
- Continue to include:
 - A defensive component in portfolios including a variable cash reserve
 - Alternative sources of returns to capital appreciation, particularly during periods of weak market performance, such as income streams and tax efficiency
 - Investment hedges to help offset market volatility and minimize the impact of market weakness on portfolio value
- Continue not to rely on most mainstream media reporting as a sole source of fulsome and completely objective information given its focus on attracting the reader rather than conveying “true and plain and full disclosure”.
- Continue to keep a plan in mind in terms of ultimate financial objectives rather than a reliance that the markets will always go up.

In our next newsletter we'll take a look at what to expect for 2019.

Regards

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