



## 2017 Year End Letter

As we reflect on 2017, we are most proud of our decision to stay on the offense by keeping our clients fully invested...cash is a horrible thing to waste. As market pundits warned all year that a major correction was around the corner, we stayed the course and our clients' portfolios benefited as evidenced by their performance.

*"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves" – Peter Lynch*

### **SYNCHRONIZED GLOBAL GROWTH: A RARE OCCURRENCE**

Going into 2017, our global investment methodology, Post Modern Portfolio Management (PMPM), dictated that we maintain our exposure to international stocks in developed (Europe and Japan) and emerging markets (China and India among others). We were seeing signs of synchronized global growth beginning to take hold as earnings and manufacturing output began to grow while many labor statistics were strengthening. At that time (and still to this day), most international companies were trading at a discount to U.S. stocks. Therefore, early in the year our team trimmed some U.S. equity exposure and redeployed the funds overseas, adding to our existing allocations. We did maintain our overweight to U.S. Stocks, but our tactical move of increasing developed international and emerging market exposure positively impacted our clients' portfolios as both asset classes meaningfully outperformed even the robust returns domestically.

### **TAX REFORM: BRIGHTENS LONGER TERM PICTURE**

One of the topics that we addressed in last year's letter (see [www.sloanim.com](http://www.sloanim.com)) was the potential for significant tax reform in 2017 and the benefits to both corporations and individuals. The tax reform bill that was ultimately passed brought corporate tax rates down from 35% to 21% and discounted the repatriation tax rate on trillions of dollars in cash held overseas by U.S. corporations.

Corporations will have many options in deploying their cash windfalls including increasing their dividends, initiating or increasing share buyback programs, increasing M&A activity to expand their businesses, or boosting pay for employees which many companies have already announced. While the tax bill directly benefits U.S. corporations, the impact will be felt globally. The IMF recently raised their forecast for world economic growth for 2018 and 2019 to 3.9% per year, citing the positive impact of U.S. tax reform.

Now that tax reform has passed, the administration's next agenda item is infrastructure. Gary Cohn, the Director of the National Economic Council, recently laid out plans for \$200 billion in new federal spending on infrastructure that would trigger close to \$1 trillion in private, local, and state spending. This will help support long term job growth and make our transportation system safer, cleaner, and more efficient.

## **MLPs: A DISAPPOINTING 2017, BUT POISED FOR A POTENTIAL REBOUND**

In the second half of 2017, we witnessed a significant dislocation between investor sentiment in Master Limited Partnerships (MLP) and their underlying fundamentals. In our opinion, the market over reacted to several corporate actions that took place during the year, none of which signaled to us that fundamentals were deteriorating. In fact, our conviction strengthened as we reviewed year over year data such as an 11% increase in oil production, a 5% increase in gas production, an increase in rig counts of more than 50%, falling oil and gas inventories, and a recovery/stabilization in commodity prices. We've already seen a very positive recovery of the MLP sector so far in 2018, and feel that MLPs could be one of our best performing asset classes in 2018.

A key component of our PMPM strategy is to allocate to as many as 10-15 asset classes within a client's portfolio. Every year, there seems to be one that underperforms the rest of the portfolio. In 2017, it was MLPs. As we develop our thesis on each asset class that we consider for investment, we project a best and (most importantly) a worst-case scenario for each investment. It is interesting that we correctly predicted the worst case for our MLP fund would be a flat year in total return which resulted in a minor drag on total portfolio performance.

## **KEEP YOUR EYE ON THE BALL**

While we experienced the lowest market volatility in more than 50 years this past year, we would not expect this environment to persist. We expect volatility to increase and the likelihood of a correction is heightened going into 2018. Despite this, we have an optimistic view of the market longer term and would view any pullback as an opportunity as opposed to the end of this bull market. We are proud our methodology has successfully navigated past market downturns as evidenced by our long-term performance.

Several of the potential areas of concern that we are currently monitoring:

- Higher than expected inflation as wages rise
- Pace and magnitude of the Fed tightening cycle
- Geopolitical events that could potentially negatively impact global markets
- Extreme investor optimism as witnessed in 1999 and 2007 (read "Was Getting the Call Right in 2008 a Good Thing? [www.sloanim.com](http://www.sloanim.com))

While we subscribe to the 'rational exuberance' thesis justifying the current bull market, we also recognize the importance of taking profits along the way and protecting our clients' irreplaceable wealth. We are in the process of raising some cash across our clients' equity exposure to augment our existing bond allocation and take a slightly more defensive position. If we were to see a pullback in the market in the coming months, we could potentially redeploy that cash depending on the cause of the pullback. As a global tactical investment manager, we often remind our clients that when the facts change, we will change our minds and tactically reallocate client portfolios.

As we close the books on 2017, we wish you and your family peace and happiness in 2018.

## **The Sloan Investment Management Portfolio Management Team**



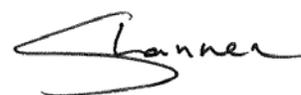
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