



# Market Note

October 2018

Diversification is dead. Passive investing rules, and momentum stocks are all the rage. What could go wrong? Well at the moment there are a lot of things going right, but that doesn't mean investors should be complacent.

Over the next several months we will be highlighting market notes from some of today's leading strategists and thought leaders. Individuals who have weathered multiple market cycles successfully and may have a unique perspective or at a minimum a more nuanced view of where we are heading. At its conclusion, we will attempt to wrap it all up in a neat package and present with our year-end review.

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The economy continues to hum along as measured by GDP growth and a healthy labor market. Corporate earnings are strong, even if anticipated to decline slightly, while valuations at the high end of the historic range, have not reached levels that should cause investors to head to the exits *yet*.

The Federal Reserve continues to methodically raise rates and has indicated a willingness to do so well into next year. With the Ten-Year now yielding 3.2%, bonds are finally giving stocks some competition for investors dollars. While the spreads on junk bonds have narrowed, no longer compensating investors for the increased risk, a flattening yield curve is largely being ignored.

Our political environment is polarized with no middle ground remaining, but that hasn't derailed the markets, nor has the trade disputes being waged on multiple fronts. With the mid-term elections looming there's still a chance for some fireworks, but any pull back will in all probability be bought going into year end.

At this stage of the market cycle nothing is cheap and the potential upside on any allocation of new capital is probably limited. Investors are left with the famous line uttered by Clint Eastwood in Dirty Harry, "You've got to ask yourself one question: Do I feel lucky?"

Well, I don't know about luck, but I do know that Howard Marks has graced us with some thoughtful commentary on where we are in the market cycle and perhaps a few things to be mindful of as we move forward.

For those of you unfamiliar with Mr. Marks, he is the Chairman and co-founder of Oaktree Capital, managing in the neighborhood of \$100 billion in the distressed debt markets and is known for his writings as much as his investment prowess. I hope you enjoy the piece and look forward to discussing your personal financial position.

<https://www.oaktreecapital.com/insights/howard-marks-memos>



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