Neuro Approach
INVESTMENT NEWSLETTER

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Einstein's "Investing Insanity"

Albert Einstein famously claimed that the definition of insanity was "doing the same thing over and over again and expecting different results". I believe this definition is appropriate in describing the "investing insanity" that we are seeing with today's stock market investing behavior.

From my lens we are witnessing a bubble market very similar to 2000 and 2007 and investors are once again aggressively participating yet expecting a different outcome.

Investors continue to aggressively buy high despite the enormous growing wall of worry and the many structural economic challenges. This has forced me to continue my defensive tactical position for all clients.

This newsletter will cover the reasons behind this strategy but I would first like to start with some simple broad stats about this cycle (which would undoubtedly have Einstein's attention!):

1. This is the <u>second longest bull</u> market ever at 103 months (the dot.com bubble was 113) so in less than 10 months we'll have the longest bull market ever…and it is based on very weak fundamentals and lots of government engineering…
2. Ironically, from a GDP perspective this is the <u>weakest recovery ever</u>!!
3. It is also the <u>second most expensive</u> market ever.
4. There has not been a 15% correction in 6.5 years. This lack of correction was <u>only once longer</u> in the 1990's dot.com bubble years when it stretched to 7 years (Pension Partners).
5. There hasn't been a 5% correction in 250 days- the 4th longest stretch ever.
6. As you would expect, complacency and fear as measured by the "VIX Fear Gauge" is the <u>lowest on record</u> as investors remain very smug about their continued buying of all the market dips.

These six facts alone should make any thoughtful investor concerned about this very expensive & prolonged care-free bull market. However, there are multiple other reasons to be vigilant and defensive:

<u>#1 VALUATIONS ARE VERY STEEP</u>

Make no mistake, by virtually all historical measures this market is very expensive and by most accounts, second only to the outrageously expensive dot.com bubble! I am fully aware that valuations alone do not topple equity bull markets BUT the price you pay does determine your future returns and you do not need to be an Einstein to appreciate that fact!

We have plenty of "evidence" that future returns from these frothy levels will be very low for the next 5-7 years once this cycle turns (e.g. GMO, Research Affiliates, Dr. John Hussman). For those exceptionally gifted day traders who are willing to accept the risk and willing to be all in or all out, it may be "acceptable practice" to continue to aggressively time this market. However, for the average non-day trader like yours truly, I am still sharp enough to know that when markets are this expensive it is more logical to focus on patience and wad protection!

History tells us that we are due for a sizable 10-15% correction any day but the real fear is the unforeseen recession bear market where the average down since 1900 is a whopping 38% (and the last two were way "above" average with -50% declines). It is very hard to regain these losses as a -38% decline requires a 61% gain just to break even (and -50% is +100% gain). The other reason to have a defensive mind set is so we are primed to be aggressive buyers when opportunity presents itself. The execution of "buying low" is easier said than done when fear is rampant and requires mental prep work before the fact.

When markets are this expensive it is always wise to look at the "logic" behind the continued optimism. In 1999 it was the false belief and hope that dot.com and "screen eyeballs" were going to radically change the world. In 2007 it was the false belief and hope that housing would always be a riskless investment as housing prices had never plunged. The trap for investors is that there is always some original truth with these bubbles but then optimism and hope becomes way over played culminating in unrealistic investor optimism (even insane) towards the end of the cycle.

When I look at the reasons behind why markets are so expensive today it sends a shiver down my spine as I see lots of smoke and mirrors and false beliefs. Today's lofty valuations are not because consumer spending has zoomed or earnings have soared or that Corporations have invested aggressively in this "fast" growing economy. The markets have zoomed because firstly we have the continued global Central Banks Financial Engineering experiment of "cheap-free money" ($14 Trillion!!) and record low interest rates (ZIRP and NIRP) which has forced many investors out of the fixed income market and into Equities (i.e., TINA—There Is No Alternative), and secondly corporations have used this cheap funding to buy back their own shares in massive quantities so as to prop up earnings and ultimately their valuations.

The investing public are aware of these facts but are now being led by the "false hope and belief" that as these two supports taper away in 2018 that the markets and economy will continue to rise unabated! This type of thinking has Albert Einstein's attention…but there is more.

#2 WE HAVE MULTIPLE BUBBLES

What worries me about this cycle versus the 1999 dot.com bubble or the 2007 housing-financial bubble is that the side effects from the Central Banks aggressive "Quantitative Easing" (QE) experiment are more ubiquitous in nature. This has allowed several smaller bubbles to develop rather than the very large isolated bubbles of 1999 and 2007.

So although I read the reports from the optimists that these smaller bubbles are manageable and will be contained I am less optimistic for the simple reason that we are now entering Phase 2 of the Grand QE experiment, which most are calling **Quantitative Tightening (QT)**. QT is the reverse of QE where liquidity will be drained from the markets and several central banks are about to embark on this path. The risk (and insanity) is that nobody knows how this will play out as it has never been done before on a global basis.

Additionally, the fact that there are so many bubbles implies that despite this being "the most hated bull ever" investors are again all in. Despite acknowledging the existence of multiple bubbles they are once again turning a blind eye, and ignoring that gnawing feeling in their stomachs, and continue to buy high!

Here are some of the troubling hot spots:

a. The Digital Currency Bubble

This is the most obvious bubble today and may already be deflating over new regulations that significantly ban the trading of Bitcoin in China. It is worth noting that 23% of Bitcoin trades in 2017 happened in China and at one point in the recent past China accounted for up to 90% (RBC report). Bitcoin had appreciated an astounding 400% in 2017 just prior to these Chinese restrictions (Ethereum is up 2300%!!). It is a sure bet that many other countries will shortly follow suit because of the absence of regulation on this "currency" which allows for significant abuse by the underworld and those not wanting to show tax revenues. Governments despise both of these activities!
Despite many uncertainties, the ascent in valuation for bitcoin and most digital currencies has been astounding, which is typical of late cycle bubble think behavior. This has resulted in huge volatility including the recent plunge from its $5013 peak to $3000 in value today. Bitcoin is a global bubble and although still relatively small in size ($150 billion) it tells me that many have forgotten about the past bubble sins of 1999 and 2007. This will be the first bubble experience for the green investing millennials and will not end well for many.

b. The FAANG Bubble

FAANG is the acronym for the 5 mega cap stocks- Facebook, Amazon, Apple, Netflix and Google. The market cap of these 5 stocks is a whopping $2.6 Trillion, which is larger than the Canadian economy (just 5 stocks!) and accounts for over 11% of the S&P 500 value (versus the other 495 stocks). As of August 31 they accounted for 26% of the S&P 500 gains in 2017 (Alliance Bernstein) but almost 40% of the S&P 500 rise in the first 6 months of 2017! William Smead put a letter out to clients two months back stating that since 2015 the 5 FAANG stocks are up 48.9% while the remaining S&P 495 was only up 4.96% on an equal weighted basis!

We call this "very narrow market breadth" in technical jargon!! Sustainable bull markets have historically been much broader in participation so FAANG is a big risk going forward especially as more money continues to pour blindly into ETFs that are very over weighted in FAANG.

As you would guess, these "super tech' stocks are priced for perfection. Netflix carries a forward P/E of 148x, Amazon is 127x, Facebook is "only" 32x and Google is only 29x. The collective P/E for FAANG is now 39x versus 32x in 2016 so the trend is higher and risker!

As I have referenced in my biweekly Generic communication, some of these five stocks are very good companies and will have very long lives BUT their valuations make no sense and is another indication of the greed that happens towards the end of long rich cycles.

c. The ETF Bubble

An ETF or Exchange-traded Fund is a security that passively tracks and replicates an index such as the TSX or the DOW and trades on the securities markets just like a stock. Vanguard initially popularized ETFs and then many others followed suit such as Blackrock with its iShares ETFs which most Canadian investors are familiar with.
Over the last few years there has been a surge in passive ETFs usage for a variety of reasons. In

2007, ETFs accounted for 8% of total US equity assets and today it is close to 40% (R Rodriguez). Between late 2007 and early 2017 we have seen \$1.2 T come out of actively managed US domestic Equity mutual funds and \$1.7 T go into passive ETF Equities according to Jeff Gundlach.

Most ETFs are cap weighted which means as more dollars go into the ETF more dollars go into few and fewer stocks. This has perpetuated the boom in the FAANG stocks over the last 2-3 years, which are very large cap weighted stocks and therefore constitute a large percentage of the current S&P 500. This in turn has meant that many passive ETFs are beating active mangers performances (which begets more buying) as many active managers are leery about the rich valuations and refuse to buy stocks with P/E ratios over 100!

The problem with continued large scale buying of passive ETF's at or near market peaks is that it easily permits indiscriminate buying regardless of fundamentals or valuations. This strategy works very well early in the cycle and mid cycle when the tide is lifting all boats but not so well when the tide shifts.

This blind care-free buying behavior is pretty typical of most bubble formations where the herd is oblivious to investing logic as they are wired to only see the "safe continued pattern" of the rising and floating boats.

However, the risk for the markets is that when the next correction happens these ETFs could perpetuate the broad market selloff as the exit door is very narrow with ETFs as they hold no cash. They are also heavily weighted in the most expensive stocks (i.e. FAANG) which typically fall the most when the tide turns, which will be a shock to these care-free investors.

d. The Debt Bubble

When central banks lower interest rates to zero it is a good bet that consumers and business are going to respond and take on more cheap debt and spend. In fact, that was the logic behind ZIRP (Zero IR) and NIRP (Negative IR) in 2009—to get the consumer to spend more to prevent a depression and deflation spiral. Unfortunately, central banks have overstayed their welcome on this plan and now we have multiple debt bubbles like never before!

And remember, the problem with excessive debt is that a dollar spent today is a dollar borrowed from the future. That debt must be repaid (or defaulted) and this does not bode well for future spending especially with weak wage growth. So let's have a look at some of these obscene debt levels:

1. Total US debt (private + public) stands at an all-time high at 352% of GDP.
2. NYSE margin debt is also at an all-time high at \$549 B or 2.86% of the GDP (vs 2.78% in 2000 and 2.63% in 2007)!
3. US credit card debt is now the highest since 2009.
4. US Corporate debt level has reached record highs (over \$6 Trillion) with their massive issuance of debt to fund share buybacks and M&A (rather than Capex spending).
5. Student debt is at record levels (\$1.3 T) and the delinquency rate rises each month and now stands at 10%.
6. US auto debt is a record \$1.1T and \$290B of this is the risky subprime.
7. Not surprisingly the Federal Reserve of NY published a report late June stating that US household debt/borrowing climbed to a record \$12.73 T which is \$50 B above the prior record of 2008. This stands at 80% of the GDP (vs 95% in 2007) which is a long ways above the last 7 decades where it stood at 56% of GDP!!

One of my favorite credit-bond experts is Dr Lacy Hunt and he keeps reiterating that when debt levels are this high small changes in interest payments “can have large impacts”. I will add that this is especially true when the middle class is already so fragile living paycheck to paycheck and with minimal wage growth (see later). And now compounding this high debt level we have the Fed about to raise rates again and start Quantitative Tightening (see later). I keep getting flash backs to the 1937 era when the Fed only increased rates from zero to 50 basis points and then all hell broke loose again…

e. Other Bubbles

Space and time prohibits further coverage but I should mention other bubbles that are side-effects of this aggressive global low rate policy such as the many real estate bubbles in China, Vancouver and TO etc.

#3 DON’T FIGHT THE FED

This has been a successful macro investing strategy because when interest rates drop, cheap money or “liquidity floods into the markets looking for a home”. The famous Stan Druckenmiller has said that “earnings don’t move the overall market, it’s the Fed”…”focus on central banks and focus on the movement of liquidity as it is liquidity that moves the market”. So the macro call has always been, “do not fight the Fed” when interest rates are dropping and especially when we also have Quantitative Easing (QE).

But the opposite is also true in that equity risks rise when the Fed is raising rates especially if there are several Central banks acting at the same time e.g. the US Fed, Bank of Canada, and Bank of England. The Fed has already tightened or raised rates 4 times in this cycle (3 times with Trump) and the odds are 50% again in December over recent “inflationary” data and “full employment” levels. There are all sorts of commentary on whether the rate hike cycle is a “slow raise” or “fast raise” which is dependent upon inflation, but for now it seems wise to assume that equity risks are elevated simply because of the multiple debt and asset bubbles described earlier.

However, the real unknown with this tightening cycle is what happens when we reverse global QE into Quantitative Tightening (QT). You will recall that many central banks after lowering IR to zero in 2009 also had to commence QE where they injected massive liquidity into the economy by buying trillions of Treasury Bonds and Mortgage Back Securities ($14T globally). This pushed long term rates down allowing for cheaper borrowing costs for consumers, lower mortgage rates, lower auto rates etc. The consumer responded to these very attractive rates and borrowed/spent thus preventing the dreaded depression outcome.

With QT the central banks plan to do the **reverse** and allow these bonds and MBS to roll over (and later actively start selling them) which will draw liquidity out of the economy-markets (the cash used to buy these maturing bonds/MBS). It will likely also promote long term rates to rise (over excess supply of bonds into the market) but this is controversial as we have never done this before. We have three of the major Central banks (US Fed, B of J and the ECB) laying out their QE taper/QT initiation strategies in the very near future so we will be watching this.

You do not need an Einstein PhD to figure out that if QE inflated financial assets then QT must have the opposite effect. These are not good events for frothy equity markets at a time that debt levels are so high. Nor are higher borrowing rates good for over-indebted consumers. A prudent investing strategy here might be to listen to the famous Stan Druckenmiller and NOT fight the Fed on this one!

#4 FOLLOW THE SMART MONEY

I realize that this is very subjective as to who is smart and who is not but here is my laundry list:

1. Bob Rodriguez. This famous retired FPA money manager had one of the best equity and bond records and recently said “these are the worst policies both fiscally and monetary in human history”…”if I was managing money today my liquid allocation would be north of 60%” and in 2008 it was 45%!
2. Francis Chou of Chou Funds said in a recent Robin Speziate interview that he has been bearish since 2014 and that currently “there is hardly anything to buy” as valuations are so high.
3. Seth Klarman and Jim Mooney (one of the best track records ever!) in a recent Baupost newsletter stated- “as has been the case for longer than we would have imagined, we remain in a market that is broadly expensive and largely indifferent to risk. This continues to be a time for patience and above all caution”. They are currently at 42% cash!
4. Niels Jensen in his September Newsletter said that “US equity markets are grotesquely over valued”.
6. Steve Romick at FPA had 45% cash in October 2007 and now has 37%! So not as bearish BUT pretty darn close…
7. GMO with Jeremy Grantham and James Montier have 40% cash/dry powder and they are telling us to avoid the US markets.
8. Famed credit investor Howard Marks of Oaktree just put out a newsletter warning that it is time for caution because of the asymmetry in the markets. He sees many similarities to 2000 and 2007 and says it’s time for caution!
9. Nassim Taleb (famed author-*The Black Swan* and investor) in a recent interview sees a “worse Tail risk than 2007” and said “if you own stocks without a hedge –it’s not rational”!
10. William White- Former chief economist (and a Canadian) of BIS just stated on Bloomberg that the current situation “looks very similar to 2008” and he sees more danger today than in 2008!!
11. Prim Watsa of Fairfax Financial continues to hold 43% cash/short term investments.
12. Finally our most famous smart money guy Warren Buffett has over $100 billion in cash! I ask myself--what is the smartest investor alive doing with that much cash and only getting close to zero return….suspect he is waiting for a FAT PITCH…hmmm…sounds like a good idea!

So I may be wrong here folks on my defensive tactical stance but I sure have lots of good company!

#5 THE WEAKENED MIDDLE CLASS

A major structural problem with the economic recovery since 2009 (and even before) has been the steady decline in the middle class wealth. Because 70% of the US GDP is dependent upon the consumer and its spending habits it is important to always have your finger on the pulse of how this group is doing and what their future prospects are like. My assessment is that they are not doing well and this is reflected by the weakest GDP recovery ever! Sadly, I do not see things changing in the near term.

There are many reasons for this weakness but a big problem has been the “income inequality” problem both in the US and globally. There are many reported causes such as the increasing trend of automation, new technology, jobs lost to lower cost emerging economies and the simple lack of appropriate work skills in this new tech economy.

The end result has been very weak wage growth year-over year (yoy) in this recovery for the middle class. Wage growth is currently running at about 2.5% yoy which pales to the historical norm of 4% annual growth in wages. One can appreciate that when inflation hoovers around 2.0% and wage growth is only at 2.5% this leaves very little extra cash left to spend on homes, furnishings, autos, restaurant meals etc.

Here are some further points that emphasize the current structural problem with the middle class:
-a CNN report revealed that 6/10 Americans do not have enough saved to even cover a $500 emergency expense.
-over the last 30 years, total wealth for the top 0.1% of the population has surged from 5% to 22.5% and the bottom 90% of the population wealth has dropped from 35% to 22% (L Fuller).
-so the top 0.1% of US households now own more than the bottom 90%--that's "income inequality"!!!
-there are many reasons for this but a major one is the growing wage disparities—the Bureau of Economic Analysis reported that CEOs of large US corporations now earn 300x what the average worker earns versus 30x in the mid-1970s!
- reflecting the weak middle class consumer is the projection that 8000 retail stores will close in the US in 2017 versus 6163 during the dreadful 2008 financial crisis—yes some are due to Amazon and online shopping but there is much more going on here re very weak consumer spending…
-median household income (adjusted for inflation) last year was $59,039 which has just now surpassed the previous high of $58,665 in 1999! That is a very long stretch without growth!
-we again saw weak retail sales in August and the trend has been weak over the last year (annual growth only 0.5%). It is also noted that discretionary restaurant sales have been flat over the last year pointing to a weakened consumer.
-there are 23 million in the US between the ages of 25-54 (the peak earning years) not working.
-a large chunk of the new job growth has been in low paying sectors such as retail, bars and restaurants which drags down wage growth.
-the yoy wage growth of 2.5% is a broad number of all workers and if you look at the bottom 80% or nonsupervisory workers we see even lower growth.
-auto sales peaked in 2016 and have declined ever since which is indicative of the weakened middle class consumer and is also typical late cycle behavior (as they are all maxed out on debt).
-housing remains historically weak and when we see weak autos + weak housing this late in a cycle it tells us that the middle class consumer is fatigued. David Rosenberg says that we often see a recession within 12-18 months under these circumstances.
-finally, corporate profits as a percentage of GDP continue at very high historical levels which means less $ for the workers and more for the corporations.

So from my lens I see a very weak and stretched middle class US consumer. We see the same problem in many of the G7 countries. I worry that the dual event of even small rate hikes when combined with QT will be a very difficult thing for this group and puts this recovery at risk.

CEOs have already pulled most of the rabbit's from the "earnings hat" with share buybacks, Merger and Acquisitions and record margins (via no wage growth) and I question what trick is left to boost earnings and revenues/sales to sustain these frothy valuations? I would not be relying on the middle class US consumer!

#6 THE DEMOGRAPHIC CHALLENGES

I have covered this topic many times in these newsletters so I will be brief. We know that the first of the elder boomers turned 70 in 2016 and 10,000 more turn 70 every day for the next 14 years! What is relevant about this fact was reported in a recent WSJ article showing that spending decreases 2.5% annually from age 60-70 and then plunges past the age of 70! Now guess who owns most of the wealth in the USA (and the other G7 countries)—it is these elder folks who are no longer big spenders and this problem grows bigger every day! That is a major structural headwind for corporations hoping to boost sales and lofty valuations going forward!

The optimist would say that the larger cohort of millennials (86 mill) will now carry the spending-consumption torch but I am not so sure. Gary Halbert reports that "52% cannot afford to live on their own". The problem for millennials are multiple--there is scarce work for this age group as many lack the technology job skills and many others are trying to cope with massive student debt. This delays their purchase of homes, furniture autos etc.

The other massive demographic structural head wind going forward is that in 1960 the US had 5.1 workers for every social security recipient and today that is only 2.8!! It gets worse in that it is expected to be only 2.1 in 20 years as more boomers turn 65. This math does not work folks and now Mr. Trump wants to limit immigration even more….Einstein would have a heyday with these numbers and surely would have a new definition of insanity!

#7 THE BOND MARKET & RECESSIONS

I pay very close attention to the bond market and the message here is clear, be cautious! This contradicts the zooming equity markets, so as a money manager I have to balance these two different viewpoints.

The all-important Yield Curve (YC) has continued to flatten since 2014 when the 2/10 year Treasury bond spread was 2.66 but recently dropped to as low as 0.86. Recall the wider the spread the more optimism about the economy, earnings and inflation. But when the spread narrows it means that bond investors are pessimistic about growth and earnings and seek safety in the 10 year bond which lowers the yield and spread which in turn flattens the YC.

The bond markets are focused on the fact that the two major supporters of this bull market, low IR and share buybacks, are about to reverse. We see that share buybacks on the S&P 500 are down 25% since early 2016 and this is likely influencing bond investors.

Supporting the pessimism around the flattening YC is the declining US dollar which indicates future US economic weakness and lack of confidence in "Trumphoria" (recall we are supposed to have health care reform, tax reform, infra structure spending etc.) and disappointed global investors are therefore exiting the US economy and dollar.

History tells us that the YC inverts about 12 months before a recession (the range is 5-16 months) BUT the peak in the stock market is very close to the time that the yield curve inverts (so well ahead of the recession). We were 86 basis points away from an inverted YC a few weeks ago but to be honest I do not know if we need a YC inversion this time around because of the enormous central bank manipulation of the short end of the curve?
The consensus from the majority is that until we see an YC inversion it is a green light to buy the dips. I am not convinced that this is true this time around and I also know that we see 20% + corrections every 5 years in the US markets without a recession (since 1928).

#8 THE RISK WITH INSANITY

The risk with being too defensive is that the markets continue to zoom and defensive investors will trail these returns. So despite my cautious and tactical strategy there are still reasons and "logic' to remain defensively invested:

1. The worst bear markets are always associated with recessions and if there is no recession in the next year then markets can continue to climb higher. I will be paying close attention to this.

2. Many Leading Indicators still remain positive and these usually change direction at least 6 months before any recession. Another item that will influence my future tactical decisions.
3. The global economy is not doing too badly as supported by a recent report from the Organization for Economic Cooperation and Development (OECD) showing that for the first time in 10 years all 45 countries they follow are expanding in 2017 (and are expected to continue to do so in 2018). This is the best showing since 2006 and 2007. So despite my defense, this data has encouraged me to focus our equity buying on international and emerging market exposure (over the US).
4. The US earnings picture has improved over the last three quarters with earnings up 14% in the first quarter and up 10% in the second quarter. Factset is calling for a 4.4% growth in the coming quarter and this will influence the markets and my tactical decisions going forward.
5. Despite central banks now turning their attention to tightening with raising interest rates, starting QT and tapering QE (ECB) the optimist will tell you that the economy is still awash with liquidity and that it will take some time for conditions to truly tighten. If this is the case markets can move higher.
6. TINA. “There is no alternative” remains a moving force for this market which is all part of the global easy monetary policy which has significantly distorted capital markets like never before! This remains a huge force behind the marching markets.
7. Lastly, when bubble expert Jeremy Grantham and renowned economist Robert Shiller BOTH claim that there is yet no euphoria that is typical with late bubble investor activity I worry that markets could continue to climb higher. But my humble view on this is that the older and “wiser” elder boomers have been scorched twice in the last two decades and simply refuse to get “vocally” aggressive this time around. But in reality, I suspect their actions maybe different and actions speak louder than words in this business. As well maybe they have left the euphoria party for the green novice millennial and their cryptocurrency bubble?

In the last part of all equity cycles money managers are working with a tricky double-edge sword. The optimists are very bullish as the trend has been their friend for so long that they only have one mind set (infinite optimism), whereas the lonely bears keep reluctantly watching markets climb higher. The risk is if you are too bullish you could get killed when the cycle turns BUT if you are too bearish you can get fired!

The only logical path at this stage is to remain invested BUT defensively so, as no one knows when the markets will turn. But there has to be logic and sanity in your investing process here!

CONCLUSION

One of the most important observations when managing money is to be aware of where you are in the economic cycle as the risk level and reward level changes throughout the cycle. At this late stage of this expensive cycle it is logical to assume that the best days for this market are behind us! This is a time when market **risk far outweighs market reward**. Now is when you should be focused on why the herd always “buys high and sells low”. This is not a time to be passively invested or fully invested—that would be insane!

But there are short term risks with this doubled-edged investing sword which can still cut both

ways. It is well known that markets often put in double digit returns in the last year before the final turn and this can cut deep for the early bear callers. But when the market does turn it will be the bulls seeking medical attention for their excessive optimism and injuries. So the million dollar question is whether 2017 was that last equity surge or is that yet to come in 2018???

For me the only logical path at this late stage of the cycle is to engage our tactical and defensive strategy. For starters this means higher cash levels, more defensive sector stocks, minimal large cap tech stock exposure, lower US equity exposure, higher International and Emerging market exposure. I am of course willing to modify this strategy as new data comes in but right now this is the safest action for my clients.

The biggest risk for markets right now is a Central Bank "policy error". It is often the final nail in the coffin for many a bull markets. I see growing risk with equities as central banks move towards tightening with further interest rate hikes, the ECB unwinding its QE program and the US starting QT. Yes the markets could continue marching higher into loftier P/E ratios but with the current structural headwinds covered in this newsletter it would then mean even more risk and subsequently lower returns going forward, I believe. This marked asymmetry in risk vs reward has me on high alert and because of this I will continue with our tactical defensive investing.

**** We also offer a bi-weekly "Curran't Generic News Report" e-mail. If you would like to receive this no obligation e-mail, please e-mail my associate at val.rybka@rbc.com***

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