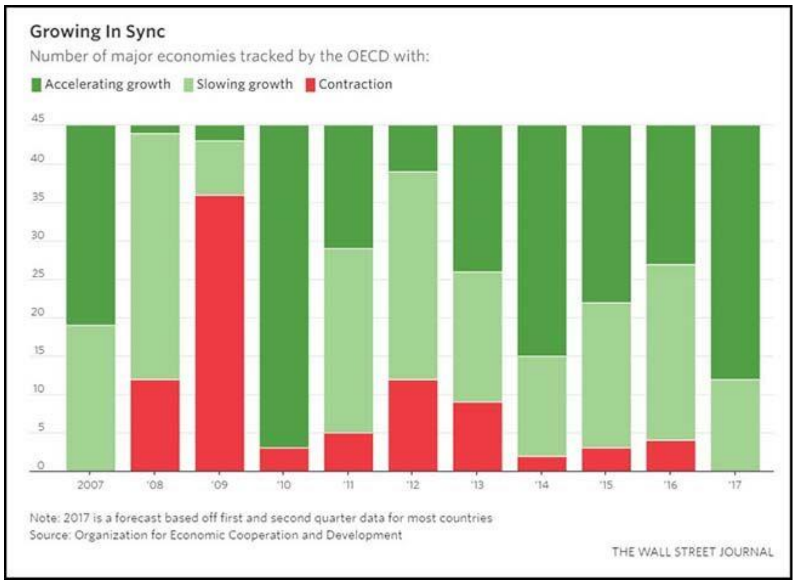
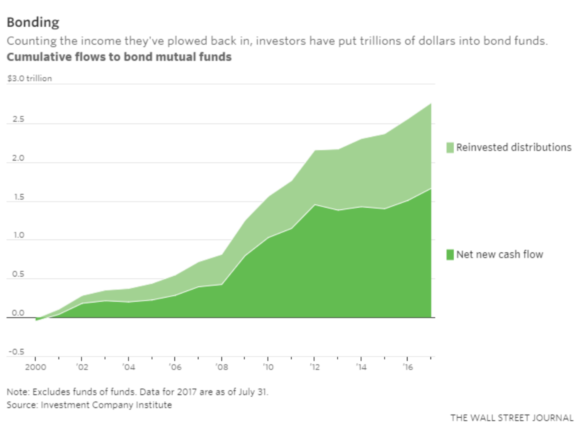
Despite Uncertainty, Still Healthy!

*"Interest rates are too low and stocks are too high." **–Every hedge fund manager at every single investment conference since 2010 (Credit: Ben Carlson)***

Despite the lingering uncertainty and questions related to global policy: Legislative, Monetary (the Fed) and Foreign, the market has continued to grind higher, further strengthening the argument that despite the negative and uneasy sentiment, markets and global economies are actually quite healthy. For the first time in a while we are seeing global economies growing in sync (See Chart) and this backdrop has provided healthy returns for just about every stock market around the world in 2017.



Despite the data and continued uptrend, investors are still fearful at becoming participants. News headlines continue to predict that a looming bear market is near and with 2008 still fresh in everyone's mind, investors are scared that they might be buying at the top. As you can see from the chart below, despite the low and rising interest rates, bond funds continue to see record inflows. In August, more than 90% of the $30 billion that flowed into all mutual funds and ETFs went into taxable-bond funds (Source: WSJ). Despite knowing that returns will not be great, investors are willing to accept this for their perceived safety.



So, with a **healthy global economic backdrop** and a **continually pessimistic investor base**, we remain confident that this bull market still has room to run. Will it be in a straight-line? Absolutely not, volatility will pick up at some point and we will see short term declines. Will it last forever? Absolutely not, and it might only have another year or two, but as long as the two fundamental truths stated above in bold remain true, we will remain opportunistic.

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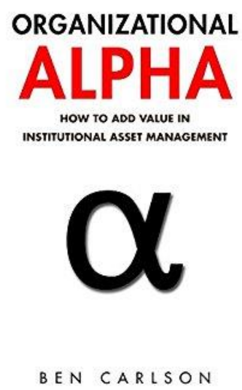
Summer Reading



We are voracious readers at Canal Capital and most of what we read deals with markets and how to become better investors. This past summer, as a firm, we read *Organizational Alpha: How to Add Value In Institutional Asset Management* by Ben Carlson. This book is about how to improve your organizational decision making which, in turn, helps you become better investors and stewards of your client's assets. In our discussions after reading the book, we felt very comfortable as an organization knowing that we were already doing many of the things that the book talked about. That said, there is always room for improvement and we found many things that will help us stay disciplined and process oriented. One of the things that the author included in his book came from the foreward of David Swensen's (Yale Endowment manager) famed book Pioneering Portfolio Management. It was written by another famous investor Charley Ellis, in which he mapped out in 6 bullet points why Swensen and Yale as an organization has had a high level of success for such a long time:

1.) **An Evidence Based Decision Making Process:** Yale uses a carefully constructed, rigorously tested portfolio structure and decision-making process that are clearly defensive.
2.) **A Team Effort**: Nothing would be possible with a strong team
3.) **Professional Respect**: Swensen always looks to help others who are more than willing to reciprocate. People are actively looking for ways to help him and his team.
4.) **A Focus on the Client**: Swensen devotes much of his time thinking about the best interests of the institution; including their long-term goals and spending needs.
5.) **Personal Respect and Affection**: The outcome of creating an inviting organizational culture is happier employees, which means very low turnover in staff.
6.) **Integrity**: Given their freedom of choice, managers prefer to work for and with clients they like and admire, and they like and admire Swensen very much.

As always, please don't hesitate to contact us with any questions or to discuss changes in your overall risk tolerance.

DISCLOSURE: Past performance is no guarantee of future results. Investments are subject to risk, including the loss of principal. Because investment return and principal value fluctuate, shares may be worth more or less than original value. These investments may not be suitable for all investors, and there is no guarantee that any investment objective will be obtained.
All indices are unmanaged and investors cannot invest directly in an index. Unlike investments, indices do not incur management fees, charges or expenses.
Investing in alternative investments may not be suitable for all investors and involves special risks, such as risk associated with leveraging the investment, potential adverse market forces, regulatory changes, and potential illiquidity. The purchase of bonds is subject to availability and market conditions. There is an inverse relationship between the price of bonds and the yield: when price goes up, yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity. Some bonds have call features that may affect income.
Treasury bonds are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, they offer a fixed rate of return and fixed principal value. U.S. Treasury bonds do not eliminate market risk.
The precious metals, rare coin and rare currency markets are speculative, unregulated and volatile and prices for these items may rise or fall over time. The commodities industries can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.