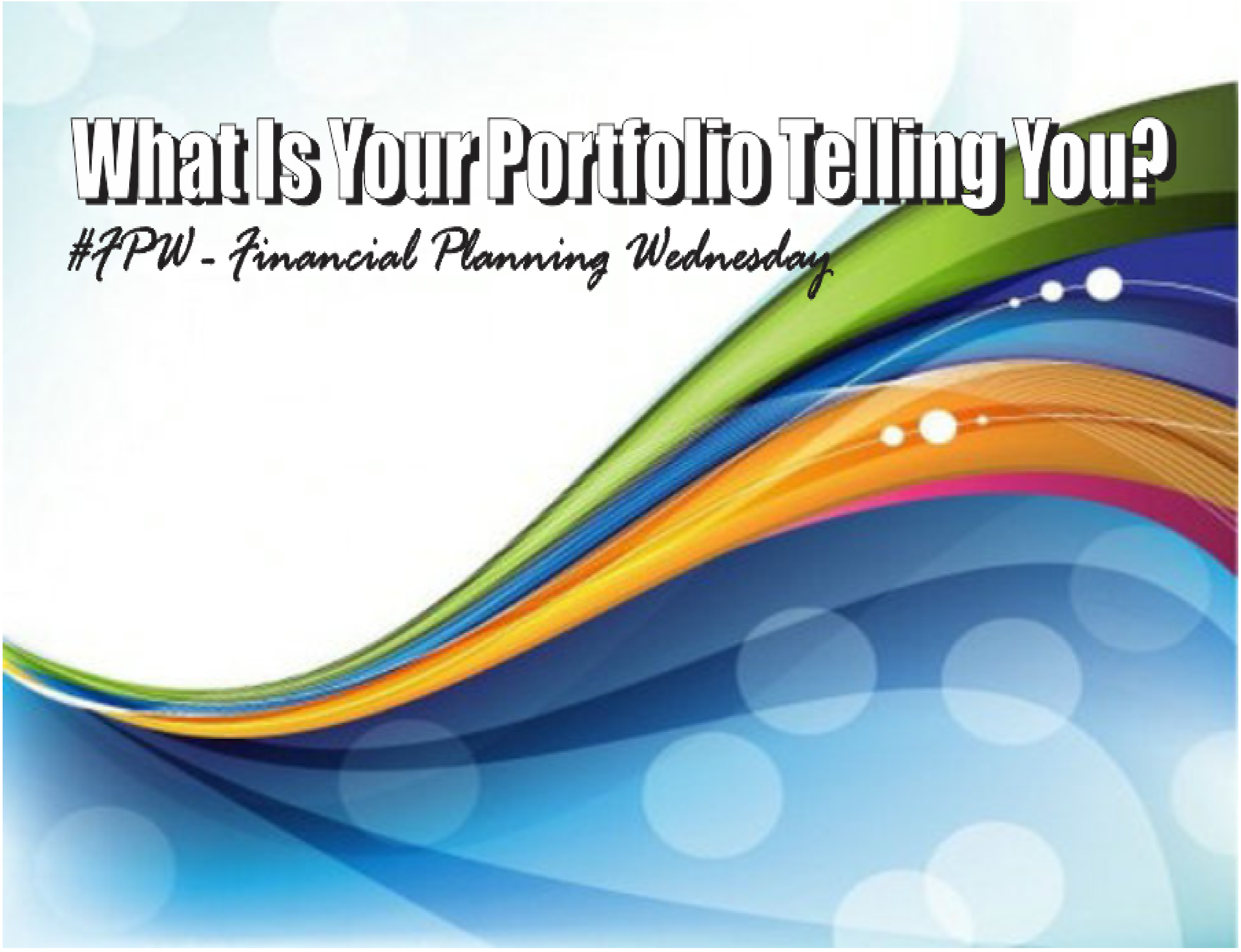

On November 8th, history was made.•And it?s not what you think. After a summer of suspended animation including weakening technical support right up to the election of Donald Trump to the highest office, one of the most powerful stock market sector rotations in history was about to erupt. All that was stuck in a hellish trading range was about to break out. The pro-growth segments of the market considered ?Trump policy friendly? like energy, basic materials, financials and industrials were about to take on new life as investors rotated out of income-heavy sectors like utilities, telecom, and real estate. The once-loved dividend yielding stocks took a tumble as intermediate and long-term bond yields rose knee-jerk in response to a businessman in the White House. The ten-year U.S. Treasury yield began a quick and steady climb from 1.88% on Election Day to 2.45% on the last day of the year. Now, the winds are shifting. Again. The excitement over expansionary economy sectors has lost some of its momentum. The non-cyclical and dividend slivers of the market like consumer staples, utilities, real estate and even health care, are showing signs of recovery this year. Bonds, considered dead and ?dangerous? to your wealth, have been increasingly resilient with yields on ten-year Treasuries remaining firm or falling, down to 2.31% on February 24. As stock markets move ahead of economic reality and it?s always been the behavior of stocks to do just that, bond market behavior is generally steadfast, observant, less impetuous. Heck, let?s call it what it is ? Bond markets are just plain smarter at assessing current economic conditions and don?t fall so quickly for hope or they only fall so far before relevant proof of change exists. If there?s a market that comes close to defining rational market theory, bonds, not stocks, is it. Which makes the current investing terrain interesting to navigate. Years ago, a friend of mine and I were in a lengthy discussion about our children. He couldn?t understand how his twin boys could possess such different personalities. One was a wild child - driven by emotion, always seeking to try new things. The other? Quiet, studied, introverted, calculated in approach to new experiences. A mild child. An asset allocation plan takes on a life of its own based on investments owned and attitude towards risk. It?s an expanding and contracting entity. And if diversified properly, you?ll have the ?wild? and the ?mild,? so best to understand how they?ll be defined as monetary policy begins to take a back seat to proposed fiscal or government initiatives.

First, realize the wild child is bouncing off walls.

Stocks are impetuous and always ready to move ahead, and then wait for economic conditions to catch up. Similar to the unpredictable behavior of a ?wild child,? nobody knows how patient the stock market is going to be waiting for several of President Trump?s fiscal initiatives to become reality. Corporate tax cuts, slashing government regulation and repatriation of foreign dollars are not only events priced in to markets but highly anticipated. Anything actions less than promised will result in a strong catalyst for correction. Several of the President?s initiatives will compel publicly-traded companies to further prolong what I call, financial shenanigans, like buying back shares and boosting dividends. Don?t be surprised if employees continue to wonder where their wage increases are and continue to be stressed for the sole purpose to appease the appetite of shareholders. So, the wild child of stocks is officially on a sugar-high of hope. No matter how long-term valuations are calculated, stock prices are out on the tip of an expectation limb. No doubt animal spirits have burned hot. Currently, the Shiller P/E or PE 10 which is based on average inflation-adjusted earnings for the previous 10 years, stands at 29.34X. Second only to the year 2000. In conversations with local financial professionals, Shiller?s calculations are slowly being discounted or justified as ?this time it?s different.? There?s only one other occasion I recall similar sentiments. Back in 1999. The Shiller P/E is a poor short-term indicator of stock performance. The metric doesn?t measure story, or emotion which places stock prices on fire or ice depending on investor demand. It?s math. The words ?inaccurate,? and ?irrelevant,? are rising above a whisper. A personal sign of caution for me. The buzz is loud enough to pay attention. This isn?t commentary about timing, it?s about how humans operate. We embrace stories to justify behavior of the wild child. *?Isn?t he cute??*•***Not everybody thinks so.*** *?He?ll grow out of it.?* ***Hmm, maybe not.*** It?s at the mature stage of a cycle that often-revised estimated operating earnings, or ?analyst voodoo? which stands at 18X, the highest since 2004, gets rationally explained away by financial writers who stretch their storytelling chops by excluding sectors that suffer from poor earnings. It?s not smart to fall into the denial traps that the financial services industry sets, especially when stocks are trading at lofty levels. The industry will go to surprising extremes to protect and makes excuses for the wild child, which unfortunately doesn?t bode well for the protection of wealth. Admit to yourself stocks are extended and ostensibly form a plan of action. As my friend with twins often laments ? ?I need a discipline to rein in or control my wild child.? As an investor, you do too.

Second, time to discipline the wild child.•

You can?t cajole a wild child. Parameters need to be established to rein in behavior. The goal is to tighten control, establish boundaries. Recent sector rotation reflects the ?Trump trade? losing steam as hope begins to pale to economic reality. Using the www.sectorspdr.com sector tracker for its Select SPDR ETFs, YTD through February 24th, the income and dividend-heavy sectors of the market like utilities have outperformed (+6.22%) their economic expansionary brethren like materials (+5.49%).

One rule we follow at RIA to maintain boundaries around the wild children, is to ***trim back winning positions to their original portfolio weights.•***

Investment Rule: *Let Winners Run*

(and never make up stories or excuses or cut the wild child any slack).

Trim the wild from stock portfolios. If you?re in a company plan, reduce equity allocations to their original targets. If you don?t have targets or understand what they should be, then it?s time to engage a financial professional preferably a fiduciary, to establish them along with rebalance and/or sell triggers. From a financial planning perspective, a retiree in distribution mode or depending on investments to replace a paycheck, should use profits to bolster cash reserves for future disbursement.

Third, never discount the mild child.

I admit. I was the ultimate mild child. My favorite pastime was reading. I couldn?t get enough. Still can?t. The mild child who remains steadfast in the background of your portfolio is bonds. And the quiet ones are not yet convinced that President Trump?s ambitious fiscal agenda is going to be easily fulfilled. There?s been a stealth move lower in bond yields which validates a realistic view of the present economic environment as opposed to what it may be at a time in the future yet to be determined. You see, it takes proof to get the mild child distracted; unlike wild child who hastily rides high on hope or low on despair, mild child is moved by results. So, why is the mild child unimpressed? It?s in the data, folks. Currently, households are using credit cards as the plastic that helps expenses meet, a dovish Yellen who already missed an opportunity to raise short-term rates, cries wolf and the mild, cerebral child is on to her pomp and circumstance, median real (adjusted for inflation) incomes remain 1.3% lower than they were in January 2000 (yea, you read that correctly), and we?ve hit a demographic wall as the U.S. fertility rate continues to shrink (down to 1.87 children born to each woman from 2.12 in 2007). I agree there is strong demand for U.S. Treasury paper from foreign sources; even at a paltry 2.32% for the ten-year note, the U.S. Treasury has become global poster boy for the definition of mild child. For example, the ten-year German Bund yields .19%. The yield pick up to cross borders is attractive. Granted. However, I fail to observe from Federal Reserve data that foreign purchases are the paramount reason for sticky yields and a flattening yield curve. Yep. The mild child is indeed deliberate in motion. The President?s policies (not yet a reality), will need to prove effective enough to break through structural economic headwinds that have been forged over several decades, rose to the surface through the financial crisis, and settled like a thick, wet fog over metrics from wage growth to productivity. It?s a tall order and mild child knows it.

Finally, love them both by understanding how they complement each other.

Be patient with the mild child, rein in the wild one and both will reward you if handled properly. It?s not easy to deal with diverse personalities. However, when it comes to building portfolios you?re talking financial nirvana. Interlocking pieces that minimize risk, add stability, yet provide growth and walk the line between future improvement and present reality? Pinch me. Last year, stock prices and bond yields moved in sync (higher). The mild and the wild were a unified force. So, what you gained on the wild side of the portfolio, you kind of lost on the mild side. This year, both are cooperating, doing the best at what they predictably do. It?s up to you and your financial partner to compromise on the disciplines required to help mild and wild succeed and simultaneously achieve your personal financial life benchmarks. Consequently, this spirit of compliment may shift. If President Trump does meet his political and economic objectives, the wild child (stocks) has the potential to break loose on the upside for another run and mild child (bonds) may finally get caught up in the euphoria and take yields to levels which may wreak havoc on the interest rate-sensitive segments of your portfolio, thus requiring another round of discipline, patience and adjustment. ***Hey, it?s tough to be a parent of financial assets.***•And just for fun, Aunt Yellen may arrive unexpectedly with harried rate increases which will generate whipsaw responses from both children, you, and your advisor. A Fed Chair attempting to play rate-hike catch up is going to make you wish you never had those darn kids in the first place. As my dear friend advised, sage in his words born of experience: *Every day these twins make or break me. I?ve learned to respect their differences, know what they share, understand how they can work against me, employ discipline to show them I?m the parent, set boundaries, and most important, learn every day how they complement each other.?* What a strong lesson to remember. About children. And money.