The Quarterly Advisor

Our Strategic View

Over the past few quarters, the market's lack of volatility has brought a sense of complacency among investors. After a dizzying plunge in 2008 and the skyrocketing returns of the six-year bull market, today's relatively placid pace may lull investors into a false sense of security.

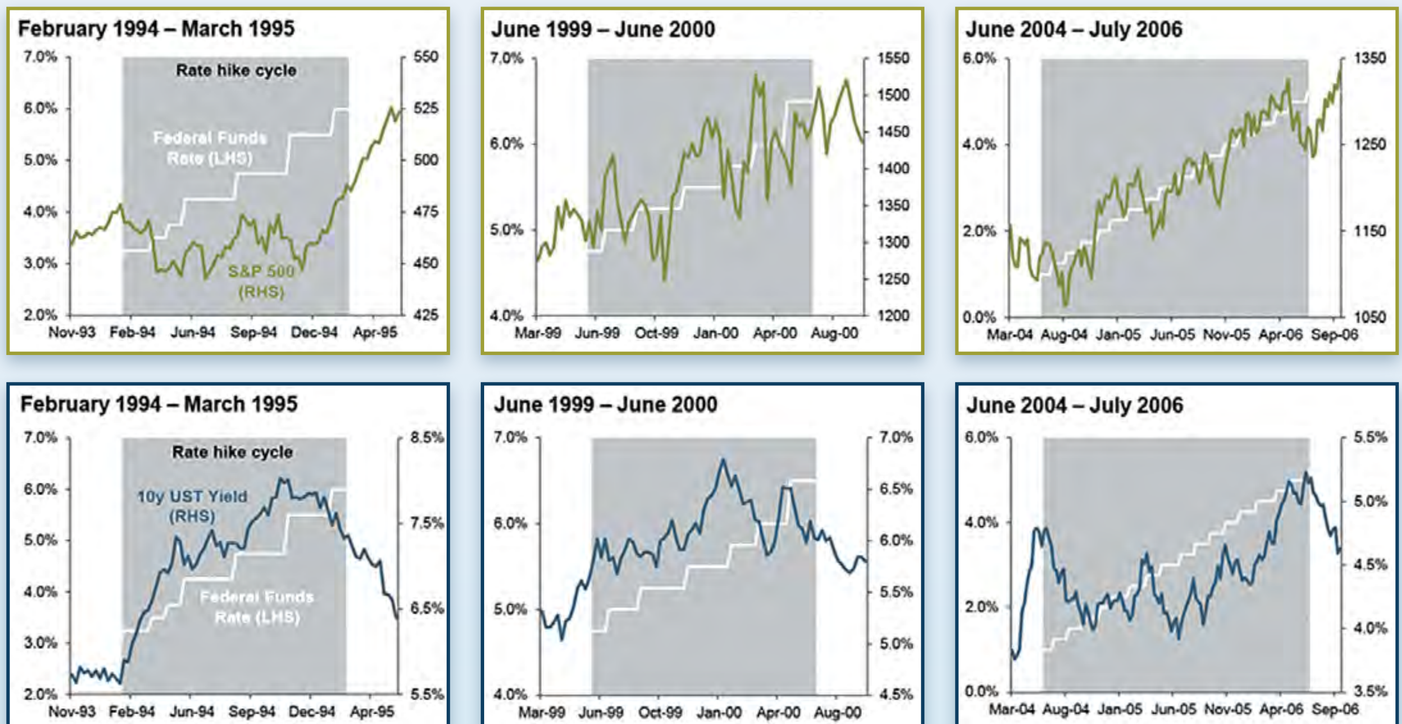
It's not likely that current market trends will continue. We believe that an inevitable geopolitical crisis or some other volatility-inducing event will rattle the market sooner or later. Coupled with worries over Greece, the looming rise in interest rates may very well shake the market out of its relatively subdued trading range in the coming weeks or months.

Fed policymakers signaled in June that they are on track to raise short-term interest rates by year-end but would continue to hold off for now until economic conditions improve. In our view, short-term volatility may return to the market when the Fed does decide to act, probably in the third quarter of this year. However, as shown in the chart below, an improving economy has often blunted the negative impact on S&P 500 returns and bond yields during historical rate hiking cycles.

Historical Impacts of Rate Increases

Returns and Yield Changes During Rate Hiking Cycles

S&P 500 price index and 10-year U.S. Treasury yield over the last three rate hiking cycles



Source: Standard & Poor's. FactSet, J.P. Morgan Asset Management. Data are as of May 31, 2015

At Fierston Financial Group

Nate, Robin and Brian see Marissa off to her Junior Prom.

Closer to home, the children finished school successfully and are preparing for a summer filled with activity. William returned from Cape Town, South Africa, and will begin working in marketing at Travelers. Mollie is a counselor at Renbrook's Summer Adventure camp and is also working as a hostess at Max Burger in West Hartford Center.

Marissa is spending the summer lifeguarding at Wampanoag Country Club, while Nate has lined up golf tournaments in New England and beyond. He recently shot even par at Tumble Brook Country Club in Bloomfield and just returned from the Jerry Haas golf camp at Wake Forest University in North Carolina. As the photo shows, Robin is now the shortest member of her family!

Best,

Dave Scott B

On the Horizon:
Volatility Returns

As we predicted in our last newsletter, diversification and active management are not dead. Last year's weakest segments are now among the strongest; and the market's performance has broadened to include more than just large cap US companies. Active managers are now having an easier time beating their benchmarks, particularly "growth" managers looking for companies with strong earnings in this slow growth economy. As volatility increases, our fund managers are well positioned to take advantage of new buying opportunities. Given the cyclical nature of investment strategies, we believe stock-picking will make a resurgence. Today, as investors brace for higher rates, we feel a diversified portfolio that combines actively managed and passive funds is the best way to address increasing volatility.

Back to the Future:
Trends in Bonds

We're carefully watching the bond markets as longer-term rates rise in anticipation of the Fed's short-term interest rate hike later this year. We are warning investors to expect volatility as bond prices drop and yields rise correspondingly.

A large portion of our client's bond portfolios are invested in short-term, high quality bond funds which can provide protection since they tend to fluctuate less in value than longer term bonds. With bond maturities coming sooner, managers of short-term bond funds can reinvest proceeds in new bonds at higher rates.

Lock In Your Mortgage Rate Now

If you're buying a home or refinancing an existing mortgage, don't wait to lock in your rate. While you may have missed the absolute bottom, you may never have a better opportunity to secure an attractive interest rate. We expect a gradual move upward in the benchmark federal funds rate, which has remained near zero since 2008. If you have an adjustable rate mortgage (ARM) or a higher-rate fixed mortgage, now is the time to lock in at a low rate before home mortgage rates begin to climb in response to the Fed's tightening monetary policy.