A MESSAGE FROM BRIAN SOMMERS

Market Risks are Growing as Stock Prices Continue to Rise

Economic conditions continue to provide support for stocks, but with stretched valuations and many areas of concern the odds of a short-term correction are growing.

Brian Sommers, CFA
Principal, Chief Investment Officer

As Principal and Chief Investment Officer for HBKS® Wealth Advisors (HBKS®), Brian Sommers oversees the firm's investment management processes for a distinguished group of nearly 30 investment advisory representatives. Mr. Sommers chairs the Investment Policy Committee of the firm and is instrumental in the identification, evaluation and recommendation of the investments that make up HBK's portfolios. He brings HBKS clients the expertise of more than 20 years managing a wide range of portfolios for both high net worth individuals and institutional clients.

Over his career, Mr. Sommers has managed an impressive array of investments, including Taft-Hartley plans and endowments, and plans for foundations, corporations, individuals and public entities. He has held positions in investment consulting and client service for both institutional and high net worth clients.

Global stock markets turned in another solid performance in 2017, driven by continued improvement in economic growth. In the United States, the S&P 500 Index was up 21.8 percent, including dividends. The index has been positive for each of the last nine years, tying the record for most consecutive years of positive performance set during the 1990's.

The strength and duration of the current bull market has conditioned investors to buy stocks every time there is a small drop in prices. This "buy-the-dip" mentality allowed the S&P 500 Index to generate positive total returns during each of the twelve calendar months of 2017. Many market strategists believe that an economic background of low interest rates, low inflation, improving employment, and stable growth continues to provide support for stocks to potentially make additional gains in 2018.

In fact, it is difficult to find anyone who believes that stocks in the United States will end 2018 lower than they began the year. After all, while stock valuations are at the high end of historical averages according to most metrics, they don't appear to be unduly expensive given the strength of the underlying economy. Also, corporate earnings have been rebounding, and will get an additional boost with the passage of the Tax Cuts and Jobs Act.

However, market strategists in general have very poor track records as market prognosticators, and right now there are many areas of concern. The Congressional elections in November could bring about contentious rhetoric and legislative gridlock. The U.S. Federal Reserve could raise rates very aggressively to head off inflation, causing a recession. The Trump Administration could lean heavily toward protectionism in their trade negotiations, causing other countries to retaliate with tariffs or competitive currency devaluations. And overseas, there is still the potential for an eruption of geopolitical risks in North Korea, Iran, Pakistan, and even Europe.

Given the elevated valuations, combined with the potential for a disappointment in any of these areas of concern, the risk of a correction in stocks is growing. While we would never try to predict which event might occur, the odds of something happening that could cause a correction in stocks have increased. To be clear, we are not predicting a correction, but simply suggesting that the risk of owning stocks have increased. As a result, volatility in the stock market could rise in 2018, and additional gains may be limited.

Even with most market strategists predicting a continuation of the bull market, we continue to emphasize the importance of managing portfolio risk, since market trends do not last forever. We believe it is crucial to maintain a diversified portfolio allocation that includes some assets whose performance is not highly correlated to the stock market.

HBKS Wealth Advisors does not rely on near-term market forecasting in managing client portfolios. Our solution is to develop with each of our clients a prudent, globally diversified asset allocation designed for the long term. With the targeted asset allocation determined, we can view the anticipated bouts of volatility as opportunities to rebalance the asset allocation back to our targets.

HBKS® Wealth Advisors | 100 Pinewood Lane, Suite 101 | Warrendale, PA 15086 | Phone: (724) 934-8200 | info@hbkswealth.com