

# PARALLEL PORTFOLIOS | MONTHLY VIEWPOINT

Our Current View on Investments and the Economy

## BIG THOUGHT

What a difference a month can make. At the beginning of the year we mentioned how stocks had pulled back to trend levels that had been good buying points in recent years. However, we also cautioned that the Fed's tightening was a headwind. **The Fed's abrupt change** of tune can be debated, but the important thing is they have stated they will slowdown rate increases and perhaps slowdown the shrinking of their asset base. This has been one of the two key factors for the markets rally. What is the other? None other than the never ending behavioral side of investing that saw a great deal of fear late last year with investors looking at their accounts too frequently and making damaging decisions to go to full cash.

So where does that leave things now? The U.S. economy is seeing some minor cracks, but still appears strong. China is seeing economic weakness, but they are trying to stimulate. Earnings growth is slowing, but still increasing. Most consumers are in good shape, but the government and some corporations have a rising debt load. It would not surprise us to see stocks trade in a wide trading range for sometime to frustrate investors in both directions. If it does happen to play out that way it will become **all the more important to avoid the noise** that affects investor behavior and own quality assets with a risk plan in place.

## DASHBOARD



-  TREND
-  VALUATION
-  SENTIMENT
-  ECONOMY
-  CREDIT

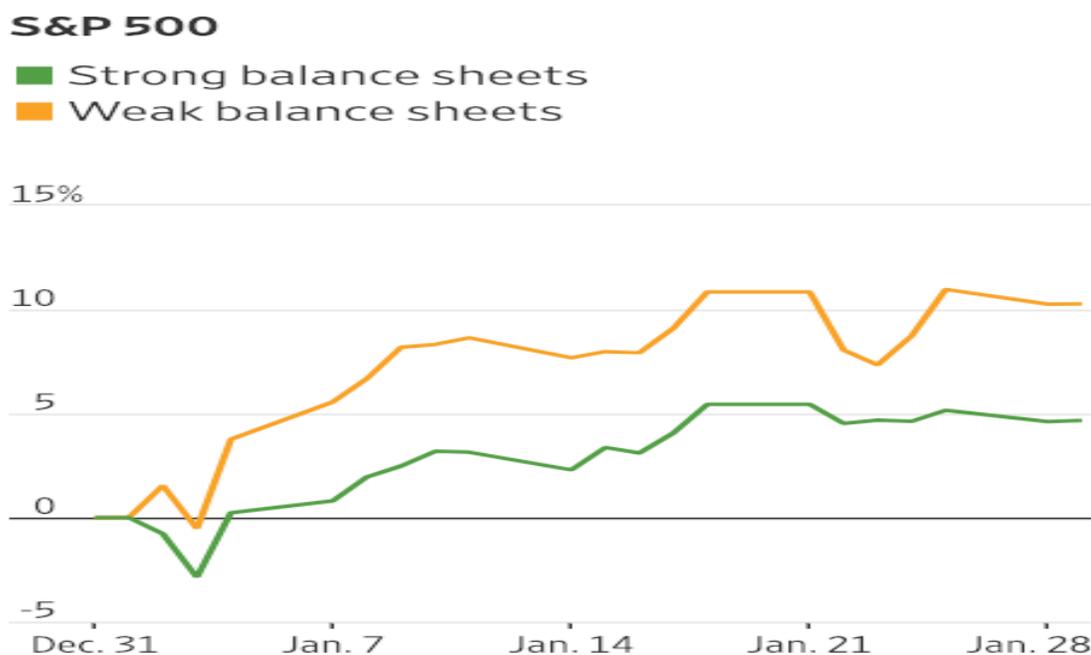
## BULLISH

- » Economy healthy
  - ⇒ Extremely strong job market
  - ⇒ Job strength boosting wages
- » Corporate earnings at record highs
- » Sales growth still positive
- » Federal Reserve becoming more accommodative
- » Valuation more reasonable after market correction
- » Market internals became oversold and investor sentiment became negative

## BEARISH

- » Protectionism/trade wars still a factor and could boost inflation and cause economic slowing
- » Yield Curve back near its low may signal danger
- » Corporate debt levels beginning to draw investor concern
- » Geopolitical concerns
- » Large and important China economy slow
- » Stock market trends still neutral

## CHART OF THE MONTH



Source: Société Générale Quant Research

One attribute of the recent market rally has been the significant outperformance by lower quality stocks. This month's chart shows us that firms with weak balance sheets actually did a full 5% better on average during January than strong balance sheets. **We rarely invest in low quality assets.** Historically high quality stocks perform better than low quality with lower risk. We think being cautious on lower quality could be particularly important in the years ahead with all of the debt many of these firms have loaded up on in recent years. There will always be periods where different types of stocks perform well. As an investor it is important to know what your investment philosophy and process is and **not be tempted into greedily chasing short-term returns that don't fit that criteria.**

**GREG TOWNER, CFA, CMT**

Chief Investment Officer

Mr. Towner has worked in the investment industry since 1999 and received his MBA from the University of Central Florida and BA from the University of Mount Union. At Parallel he oversees the implementation of the firm's overall investment philosophy and is the Senior Portfolio Manager for several strategies. Prior to his current role Mr. Towner was co-manager of large cap core and equity income portfolios totaling approximately \$1 billion at Sterling Capital Management. He holds the designations of Chartered Financial Analyst and a Chartered Market Technician.

**BRIAN BOUGHNER, CFA, CMT**

Principal

Mr. Boughner has worked in the investment industry since 2000 and holds a BS from Florida State University. He is a co-founder of Parallel, a Senior Portfolio Manager for several strategies and has developed the firm's quantitative tools. Prior to Parallel he had extensive experience with U.S. Trust, BB&T Wealth, Royal Bank of Canada (RBC Centura), Amsouth Bank, and Charles Schwab Co. Mr. Boughner holds the designations of Chartered Financial Analyst and Chartered market Technician.

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