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# THE TEMPO VANTAGE

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## Expectations

Low volatility continues to be the overarching theme of the markets in 2017, despite our domestic politics and global turmoil. Through it all the markets are having a pretty good year. For the third quarter the S&P 500 was up 4.5%, which brings the year-to-date return to +14.2%.

Beyond the S&P 500 most market segments were also up in the 4% to 5% range for the quarter. In fact there were just a few standouts. On the positive side were technology (+8%) and defense (+13%). Happily both of these are strategic overweights in Tempo Lifestyle accounts. On the negative side were real estate (+0.7%) and utilities (+3%), neither of which we currently own.

Returns were less exciting on the fixed income (i.e. bonds) front. The BarCap Aggregate Bond Index was up 0.8% for the quarter and most other bond categories had similar results. There were a few exceptions. High yield bonds (+1.8%), emerging market bonds (+2.8%), and convertible bonds (+3.2%) all performed better than average.

It has been a long time since we've had a bear market (a drop from a peak of over 20%). Many market observers are expecting a bear market for no other reason than we are due for one.

That is not how it works.

The markets don't fall just because it has been a while. There needs to be a reason. In 2000-2002 it was the dotcom bubble. In 2008 it was the financial and housing crisis.

As I wrote in the last Vantage Newsletter "the P/E ratio on the S&P 500 is about where it was a year ago (24), interest rates are still low, and the yield curve is upward sloping. All these point to a fairly valued stock market with prospects for a growing economy."

What could trip us up today?

**Earnings**: Earning on stocks continue to be steady and strong. If earnings suddenly come in significantly lower than expected that could cause a drop in the market.

**North Korea:** North Korea is a problem not only in Asia, but increasingly for the world. But let's face it, harsh rhetoric has been coming out of North Korea for decades. Does anyone expect an actual conflict? Probably not. An actual physical confrontation would certainly give pause to the markets.

**Interest Rates:** More important than whether interest rates are low or high is the expectation for future rates. Right now interest rates are low and the Fed has signaled that increases will be coming in a slow and measured way. If the Fed were to increase rates more aggressively than they have indicated it would take the market by surprise and there would be a negative reaction.

The one thing these potential trips have in common is a change from the status quo. We expect earnings to continue upwards, we expect North Korea to be harmless rhetoric, and we expect interest rates to rise in a slow, methodical manner. It is only when our expectations are not met that we run into trouble.

## Tempo Financial Advisors' 3rd Quarter Investment Performance

All three of Tempo's investment programs had terrific third quarters with positive, benchmark-beating results. This is exactly what we strive for.

Our star performer was the **Tempo Dynamic Growth Program**. For the quarter Dynamic Growth returned +5.8%, which was a full 3% better than our benchmark!

How did we do it? First, we had our maximum exposure to equities (60%). Second our equity positions were in areas that did significantly better than average (small cap growth +5.6%, technology +8%, international small cap growth +15%). Finally our non-equity positions were in the few areas of the bond market that shone in the third quarter (high yield bonds and emerging market bonds).

Next up is the **Tempo Lifestyle Program**. Returns ranged from +3.5% for conservative accounts to +4.5% for aggressive accounts. Across the board these were about 0.6% better than benchmarks. As mentioned above our strategic overweight positions in technology and defense stocks helped performance quite a bit. Beyond that you may recall that we are at our upper limit in exposure to international stocks, which continue to outperform domestic equities.

Last, but certainly not least, is the **Tempo Dynamic Income Program**. Our return of +2.3% for the quarter was 1.5% better than the BarCap Index. We were able to generate this return by investing outside the traditional areas of the bond market in favor of high yield bonds and convertible bonds.

From a slightly longer-term perspective the year-to-date return for Dynamic Income is +6.2%. Although the lowest of our three strategies in terms of absolute returns it is a full 3% better than the BarCap Index. We've have certainly made the most out of what the bond markets have offered this year.

**Reminder**

Please contact us if there has been a change in your financial circumstances that would warrant a fresh perspective on your portfolio.

Daniel J. Traub