SEIZERT CAPITAL PARTNERS

DIRECTIONS

A PERIODIC PUBLICATION OF STOCK MARKET INSIGHTS AND OBSERVATIONS

Dear Clients,

The U.S. equity market finished higher in the third quarter with the S&P 500 rising for the eighth straight quarter. The bull market for the S&P 500 has reached 103 months in duration which is the second longest bull market for the stock index since 1950, trailing the longest bull market by 10 months. Market valuations remain at uncomfortable levels yet we continue to see complacency as investors take on risk. The emotions of "FOMO" (fear of missing out) and rationalization of "TINA" (there is no alternative) are prevailing. As a result, market volatility has been low as the market has climbed to new records. News of the British vote to leave the European Union in June 2016 was the last time the markets experienced a 5% correction.

Equity markets continued to advance in the third quarter to the chagrin of "the bears" as underlying fundamentals remain positive. The U.S. economy is expanding and, while at a slower pace than the historical record, it is now joined by the European, Chinese, Far East, and Emerging markets. This economic expansion continues to be fueled by monetary policy: the balance sheets of the Federal Reserve (Fed), European Central Bank and Bank of Japan rose $1.5 trillion (with a T) to a record $14.2 trillion in the third quarter. While the Fed has begun to raise rates and signaled a gradual reduction of its balance sheet, other central banks have maintained a stimulative policy. The Fed's tightening policy seems to be hampered by low inflation, which has been confusing to traditional economists whose models don't account for a slack global labor force and innovations.

Despite the positive economic news, daily media headlines provide much fodder for negativity. The content - which must be filled - reminds us of geopolitical tensions, unstable global leaders, a dysfunctional congress, a non-establishment president, natural disasters, mass murder, cyber-attacks, Fed Chairperson speculation, and gossip about who might be the next to leave the Cabinet. For now, fundamentals of global expansion, rising earnings, continued high levels of profitability and cash flows, managements' focus on good capital allocations, overwhelmed the above concerns and stocks are acting accordingly. However, the market's "emotion" can change quickly and the short-term trading of Exchange Traded Funds (ETFs) might exacerbate any short-term swing.

We continue to caution clients that expectations need to be tempered. While we are grateful for the last twelve months – the S&P 500 is up 18.61% through September 30, 2017 - valuations are lofty. History suggests that investors should expect returns in the single digits in the future simply based on these high valuations. We continue to work to exceed what is provided by the market by practicing the tenets of active management we outlined in our previous quarterly letter.

Happy Fall!

Gerry

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