

# INVESTOR INSIGHTS

*Creating a clear path through retirement*

JANUARY 2017 | WWW.ENSEMBLEWM.COM | 866-582-7564

## Living the Dream

New Year's resolutions... What are yours this year? Save more money for retirement? Travel to a new country? Spend more time with family & friends? Whatever your resolution may be, let us know your goals so we can help put you on the right track.

## HAPPY NEW YEAR!

New Year, New Office! We're thrilled to show off our new office space, located on the 2nd floor of the Plaza Professional Building. We now have 2 conference rooms, gorgeous views of the valley, and Darcy put her design skills to work with elegant finishing touches throughout. Our team shared a special evening together celebrating all of our hard work at Lavender Bistro for our company holiday dinner. With 2017 in full effect, we're dedicated to helping our clients and friends make the most of this year. With an exciting event calendar planned for this year, we hope you'll stay tuned for our announcements and updates!



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## 2017: Year of Surprises?

If 2016 was a year of shocks, what will the next 12 months bring? In this article, we'll try to predict the surprises of the coming year.

By definition, a surprise is something the consensus does not expect. A regular survey of global fund managers by Bank of America Merrill Lynch (BAML) points to what most people believe. Following the election of Donald Trump, investors are expecting above-trend economic growth, higher inflation and stronger profits. They have invested heavily in equities and have a much lower-than-normal exposure to bonds.

So it is not too difficult to see how the first surprise might play out. Expectations for the effectiveness of Mr. Trump's fiscal policies are extraordinarily high. But it takes time for such policies to be implemented, and they may be diluted by Congress along the way (especially on public spending). Indeed, it may well be that demography and sluggish productivity make it very hard to push economic growth up to the 3-4% hoped for by the new administration. Neither fiscal nor monetary stimulus has done much to lift Japan out of its torpor, after all.

American profits, which were falling in early 2016, seem certain to rebound, particularly if the new administration pushes through corporate-tax cuts. But with the market priced on a cyclically adjusted price-earnings ratio of 28.3, according to Robert Shiller of Yale, a lot of good news is priced in. The ratio, which averages profits over the past ten years, is 70% above its long-term average.

Meanwhile, the Federal Reserve is pencilling in three rate increases in 2017, something that will probably push the greenback higher (and reduce the dollar value of foreign profits for American multinationals). So the surprise might be that Wall Street will not be that great a performer in 2017.

By extension, the second surprise may be that government bonds do not do that badly. The yield on ten-year Treasury bonds is already approaching the top of the 1.5%-3% range in which it has been trading in recent years. Private-sector borrowing costs, including corporate bonds and fixed-rate mortgages, tend to move in line with Treasury yields. Increased borrowing costs would have an adverse effect on economic activity. As a result, sharp rises in bond yields are often self-correcting, since weaker economic data tend to drive yields back down.

The third potential surprise of the year might be a dog that doesn't bark. The biggest worry of the fund managers polled by BAML is that of EU disintegration. As a result they have a lower-than-normal holding in European shares. But the EU might get through the year unscathed if Marine Le Pen is defeated in France's presidential vote and Angela Merkel is re-elected in Germany. Populism does not win every time, as the recent Austrian presidential poll demonstrated. Indeed, the euro-zone economies could grow at a respectable 1.6% next year, the OECD forecasts. The continent might even seem a safe haven, given events elsewhere.

Another potential surprise in 2017 could come from a big market disruption. There have been a few of these events in the past—from flash crashes to sudden leaps in bond yields. They seem to be the result of computer programs that trigger sales when specific price points are reached and a retreat by banks from trading, which has made markets less liquid. The trillions that flow through financial markets every day are also a tempting target for cyberwarfare and cybercrime. The big story of 2017 could be an inexplicable (if temporary) crash in a vulnerable market, such as high-yielding corporate bonds.

The final surprise may be served up by that most enigmatic of metals—gold. Working out a target price for gold is a mug's game. You can understand why investors bought gold when central banks started expanding their balance-sheets after 2008. But it is harder to explain why the price more than doubled in less than three years before falling back since 2011.

As investors' inflation expectations have risen since the American elections, gold might have been expected to rally. Instead, it has fallen sharply—perhaps because investors see the metal as an inferior alternative to the surging dollar. But gold is not just a hedge against inflation, it is also sought out in periods of political risk. And with the Trump administration apparently poised to pursue a more aggressive approach towards China and Iran, it is hard to believe that gold won't find a few moments to shine in 2017.

Kind Regards,

Michael Clark, CFP & Garrett Yack

## WE'VE MOVED (UPSTAIRS)!

Ensemble Wealth Management has moved to the 2nd floor of the Plaza Professional Building. We've upgraded our new space and expanded our office with multiple themed conference rooms, a clean streamlined design, and modern touches. Our entire office has been redesigned to serve you better.

**Our new address is:**  
74-760 Highway 111, Suite 202, Indian Wells, CA 92210

## UPCOMING EVENTS

If you or a friend are interested in attending any of our events, please call Taylor at 760-341-8932 ext. 105

### FEBRUARY 2017

Welcoming Widows Meetup  
When: Monday, 2/13/17 @ 2pm  
Where: Pinot's Palette  
71680 HWY 111, Suite D  
Rancho Mirage, CA 92270

### FEBRUARY 2017

Community Recycling Day  
When: Saturday, 2/11/17 @ 8am-12pm  
Where: Ensemble Wealth Management  
74-760 US HWY 111, Indian Wells Parking Lot

### MARCH 2017

Spring Fling Client Mixer  
When: Friday, 3/31/17 @ 6pm-8pm  
Where: Bellatrix Restaurant at the Classic Club  
75-200 Classic Club Blvd, Palm Desert, CA 92211