Argent
Wealth Management, LLC

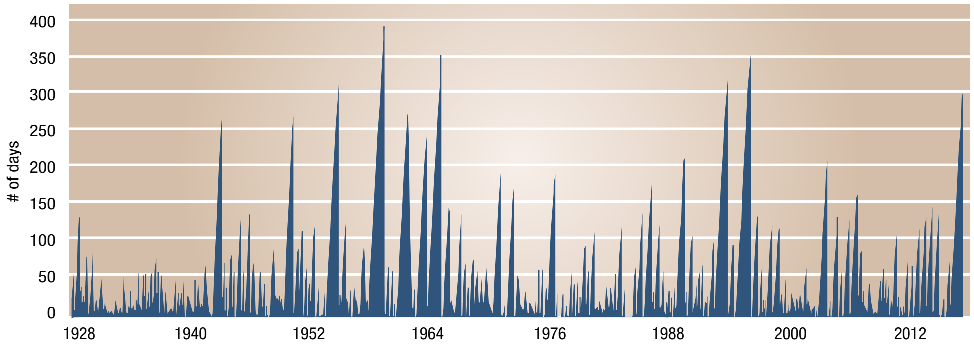
Investment Outlook
FALL 2017

Fourth Quarter 2017 Outlook; Third Quarter 2017 Review

Is There Anything Cheap? What to do When Markets Set Records

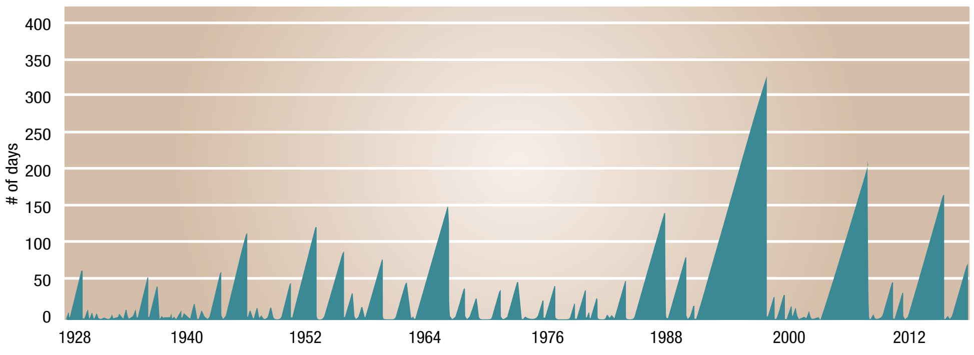
Markets continued to advance broadly during the past quarter, coupled with still record low volatility. As seen on the chart, U.S. equities have gone a historically long time without a 5% pullback.

Days Without Five Percent Correction



Source: Ned Davis Research, Inc.; Chart: Argent Wealth Management, LLC © 2017

Days Without Ten Percent Correction



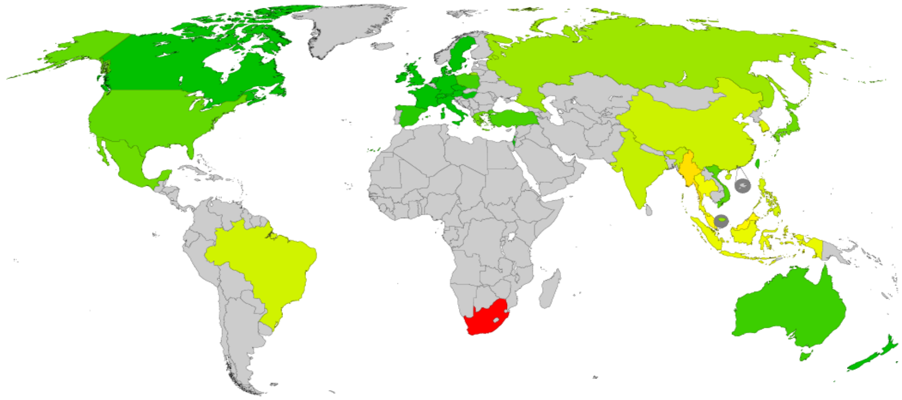
Source: Ned Davis Research, Inc.; Chart: Argent Wealth Management, LLC © 2017

Yet, our most trustworthy indicators are still not flashing serious warning signs. More serious bear markets are almost always associated with one, or both, of two primary conditions: economic recession or extreme excess valuation (bubbles). Neither condition is present currently, or on the immediate horizon.

As noted in our last report, economic conditions are robust and gaining breadth. About 97% are in expansion, according to the Purchasing Managers' Index of countries and economic regions. That alone is quite unusual. Prior U.S. expansions have almost always been coincident with some other economic regions experiencing difficulty. Importantly, inflation remains anchored at low and stable levels in the U.S. and abroad. As such, monetary policy continues to be highly accommodative and investors have limited choices but to remain committed to equities and other "growth" assets.

While we have been warning of the increasing likelihood of a historically

Purchasing Managers' Index (PMI)



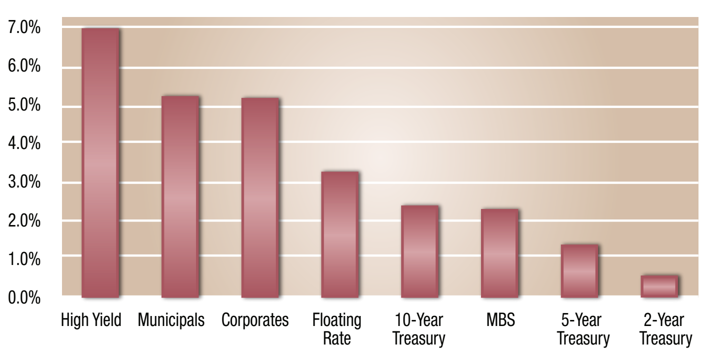
South Africa	44.9
Burma (Myanmar)	49.4
Malaysia	49.9
Thailand	50.3
Indonesia	50.4
South Korea	50.6
Philippines	50.8
Brazil	50.9
China	51.0
India	51.2
Russia	51.9
Singapore	52.0
Greece	52.8
Mexico	52.8
Japan	52.9
U.S.	53.1
Vietnam	53.3
Turkey	53.5
Poland	53.7
Australia	53.8
Taiwan	54.2
Spain	54.3
Canada	55.0
Ireland	55.4
U.K.	55.9
France	56.1
Italy	56.3
Czech Republic	56.6
New Zealand*	57.9
Eurozone	58.1
Israel*	58.4
Hungary	59.3
Austria	59.4
Netherlands	60.0
Denmark	60.3
Germany	60.6
Switzerland	61.7
Sweden	63.7

Source: Ned Davis Research, Inc.; Chart: Argent Wealth Management, LLC © 2017

normal correction of 5% to 10%, it has not materialized and we have been right to stay at neutral risk levels. U.S. equities continued to set records almost daily. Lagging sectors such as Smaller Capitalization and Value equities actually did some catching up. That has helped our portfolios.

Fixed income markets have also been a pleasant surprise. Strongly advancing equity markets are often, but not always, associated with an accelerating economy and rising interest rates. Interest rates on the highest grade bonds such as U.S. Treasuries have remained quite contained. Total return on many spread fixed income sectors such as High Yield and Senior Secured Loans have been more generous. We remain overweight these spread areas, although we have been more selective and have invoked trim disciplines as valuation has become more problematic.

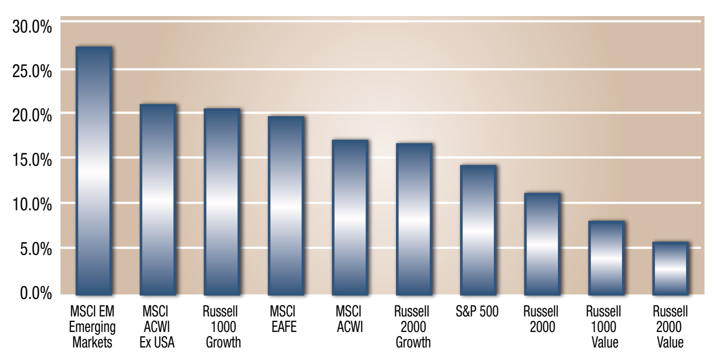
Fixed Income Performance Year to Date



Source: JP Morgan Chart: Argent Wealth Management, LLC © 2017

International markets continue to provide favorable returns. We have continued to let our positions run here, as there is more room to advance in our view. Many International equity markets remain more favorably valued, and more importantly, have more potential for earnings expansion. An additional positive factor that has surprised most market participants has been a rally in non-U.S. currencies such as the Euro.

Global Equity Returns Year to Date



Source: Morningstar Inc. Chart: Argent Wealth Management, LLC © 2017

To sum up, it has been a delightful period for investors. An unusually high percentage of equity, fixed income and other markets have posted nicely positive returns. While ominous clouds are not on the immediate horizon, in our view, such unusually generous and broadly based returns are not likely either. Volatility and more uneven market returns will likely revert to more historically normal levels, although claiming to have precise ability to predict the timing would be foolhardy.

The Great Fed Balance Sheet Unwinding Begins

The Fed was able to officially kick-off plans to begin reducing its massive balance sheet. The market hardly blinked. That seems incredible when compared to the bond market Taper tantrum that was experienced in the summer of 2013. Yields exploded then as the mere concept of less aggressive Fed purchasing of assets was introduced.

The Fed and Chairwoman Yellen clearly learned a lot about managing market expectations. This decision was so well telegraphed that the actual announcement was a non-event. It also helped considerably that inflationary indicators have been falling from already quite low levels over the summer months.

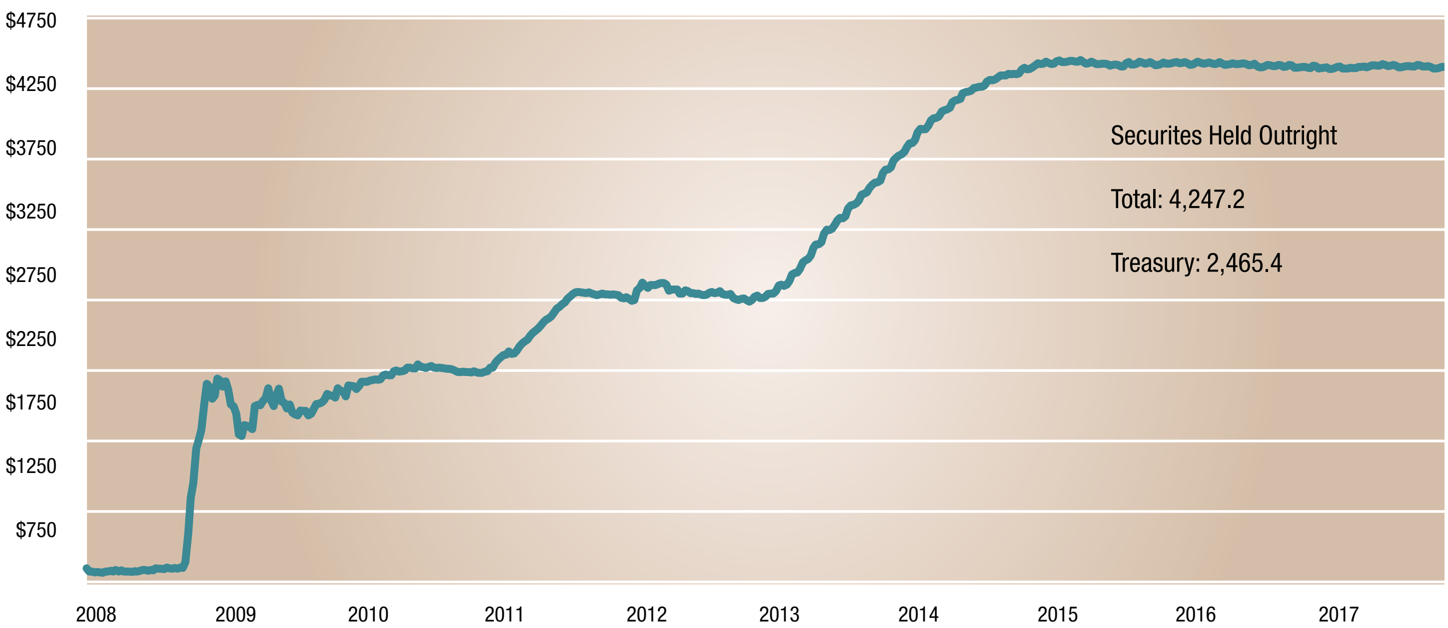
We do believe that the combination of reducing the Fed's massive balance sheet plus simultaneous increases in the Fed Funds rate is a big deal. The increase in the balance sheet that occurred after the Great Recession of 2008, was unquestionably influential in propping up asset prices. It would be hard to argue that the reverse would not have some consequences eventually.

In the short run, the initial steps in reducing the balance sheet, by letting some combination of Treasury and Mortgage Securities roll off, are quite small. Most non-U.S. central banks remain anchored at zero interest rates. As such, the demand for income securities remains intense across the globe. These initial asset sales are easy for the market to accommodate.

If the pace of asset sales begins to increase, and short-term interest rates are simultaneously increased, even modestly, it becomes more of a challenging equity environment. For valuations to go and stay higher, investors would need to be convinced that inflation would remain low forever. We do not think that is a wise calculation given a strong and expanding economy and with the additional potential for fiscal stimulus such as tax cuts and regulatory relief.

We believe that interest rates will eventually rise and the yield curve will steepen (longer term rates will rise more than shorter term rates). We also believe that the rise in yields will be less dramatic than in past cycles. We would be enthusiastic to add to our higher grade fixed income assets at a yield of around 3% on a 10-year Treasury bond. While that may not seem generous, it would restore a lot of value and the diversification benefits that only higher grade bonds can provide.

Securities Held by the Federal Reserve (In $ Billions)



Source: Ned Davis Research, Inc.; Chart: Argent Wealth Management, LLC © 2017

Would Tax Cuts, if Enacted, be a Positive Catalyst?

The possibility of a legitimate tax cut and tax reform is back on the table. The market remains highly skeptical, for obvious reasons. That suggests the potential of a positive market catalyst.

However, following the potential for an initial sugar high, we are not of the opinion that this would create another sustained leg up in equity markets. The bullish argument is that a tax cut could add materially to corporate earnings, as much as 15% on the S&P 500. That would improve valuation metrics, all things being equal. Unfortunately, all things are not equal and it is more complex than that.

Fiscal stimulus, such as a tax cut, would likely cause a lift in the rate of U.S. economic growth. That lift could come at a time of already full employment conditions. If wage growth were to firm, as we would expect, and inflationary indicators would rise, then the Fed would become more vigilant. More rapid increases in the Fed Funds rate are usually associated with a lower Price / Earnings ratio.

There is another more subtle, potential off-setting factor. On the surface, a corporate tax cut would increase margins by lowering tax liability. Whether corporations are able, or willing to sustain that increased margin is another matter. In a world of intense global competition, many corporations may choose to lower prices or increase wages to gain market share. As such, a sustained increase in margins may prove illusive.

The Biggest Risk Factor; A Sharp Pick-up in Inflation

Successful investors are never totally complacent and always at the ready as market conditions change. It helps to always thoughtfully consider other scenarios, even if they are less probable. The big one, in our view, is an environment whereby central banks stimulate inflation.

In the near term, that seems impossible to contemplate. Excess capacity remains in most industries and regions. Companies are more competitive and global than ever before. It is not just Amazon that has been driving prices lower.

Central banks have been slow to appreciate the structural decline in inflation. Our Fed, for example, has consistently overestimated inflation every year since 2008. As recently as their last press conference, they said they were perplexed and as to softness in recent months. Softness in the Spring was explained as "idiosyncratic" and "special" factors such as a large decline in the prices of cell phones.

Longer run, it is possible that excessive monetary accommodation can become a problem. Too much fiat currency (paper money) has been a boon to asset prices. While it does not seem possible now, excessive money supply could creep into wages. Ironically, sustained low inflation now, and the threat of deflation, could create excessive complacency and an eventual overshoot.

For now, it is all about investing in the market that exists on the horizon. We would take some risk off the table under conditions of a more rapid appreciation (over valuation) and truly excessive market sentiment. Until that time, we remain aligned with our clients' tolerance for risk. Markets are highly valued, for sure, but not evenly so. There remain sweet spots in both equity and fixed income markets. Overweighting these areas that provide the best risk / return trade-off results in a broadly balanced, efficient portfolio.

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All of us at Argent thank you for your continued support and confidence. If you know of anyone that might benefit from Argent's services, we would welcome the opportunity to discuss their particular situation with them.