Argent
Wealth Management, LLC

Investment Outlook

SUMMER 2017

Third Quarter 2017 Outlook; First Half 2017 Review

Market Volatility at Record Low Levels

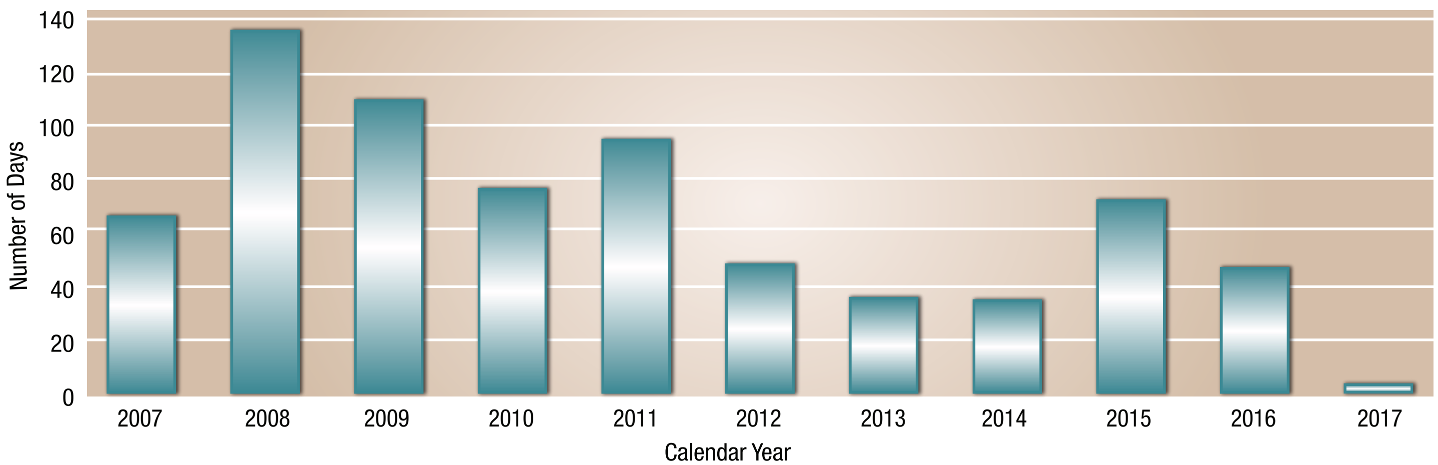
The biggest surprise so far in 2017 has been record low volatility of equity markets. We are not surprised by positive returns across most asset classes. However, with an unusually high degree of policy uncertainty regarding critically important tax and fiscal policy, we along with many top strategists have been anticipating more dramatic, albeit temporary, market corrections.

There are many ways to measure volatility. A visible and dramatic example can be found by measuring the number of days that market averages have moved up or down by more than 1% (see chart). Such 1% days are routine events. They have all but disappeared so far in 2017.

We believe that the two key factors explain this; 1) Exceptionally low "economic uncertainty" as a result of an unusually broadly based global economic expansion. Inflation indicators have also been unusually contained and stable. 2) Abundant liquidity because of exceptionally accommodative and highly predictable monetary policy. The world remains awash in liquidity and investors have few choices to achieve acceptable returns.

Stable growth, low inflation and abundant liquidity has been a delightful environment for investors globally. Equity markets have advanced steadily with even the most modest market pull-backs finding plenty of eager buyers. High grade bond yields have remained super low, and have actually declined moderately, despite expectations of rising yields as the Fed nudges short interest rates higher. Credit spreads have remained narrow and stable by historical standards.

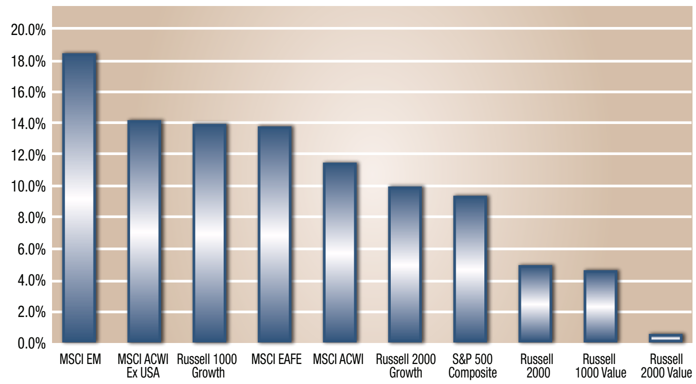
Number of Days with a 1% or More Move in the Stock Market



Source: Yahoo Finance Chart: Argent Wealth Management, LLC © 2017

Interestingly, sector and individual stock volatility has been dramatically higher than that of the overall indices. Examples include the poor performance of Retail and Energy shares. Many of these stocks have been making new 52-week lows, even as the Dow and S&P 500 break all- time highs. Smaller Capitalization equities have been left behind as larger Capitalization equities, particularly Growth stocks, surge.

Equity Returns Year to Date

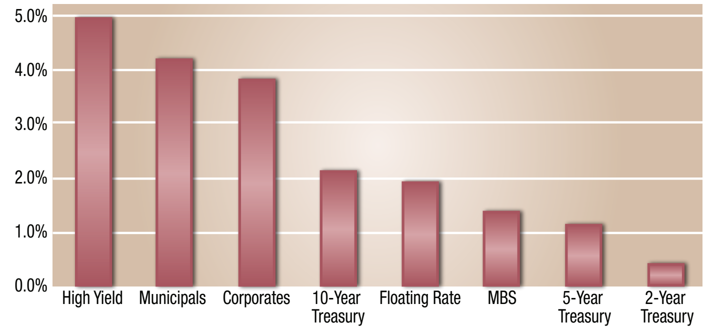


Source: Morningstar Inc. Chart: Argent Wealth Management, LLC © 2017

Equity Markets:Tilting More Heavily To Value (and International)

While equity markets enjoyed very broad-based appreciation, as we have discussed, this was by no means evenly distributed. In the U.S., larger Capitalization Growth sectors, such as Technology, surged well beyond Value based sectors. The margin of excess performance was unusually large. That has resulted in Growth equities being richly valued and investor expectations seem too ebullient, in our view.

Fixed Income Returns Year to Date

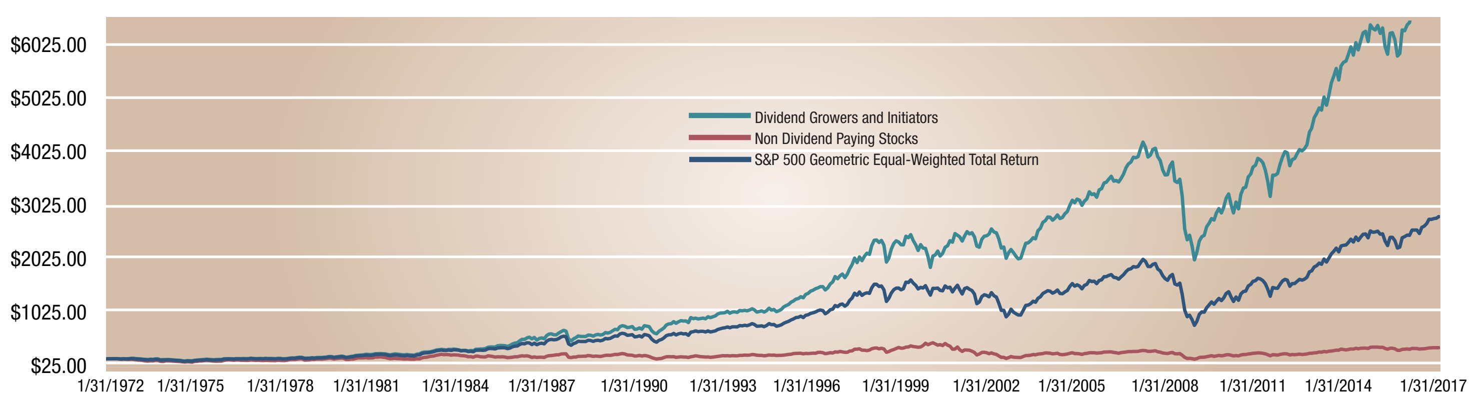


Source: JP Morgan Chart: Argent Wealth Management, LLC © 2017

We now find certain Value based strategies more attractively positioned and have increased our weight over the past quarter. In particular, we find Dividend Growth Value based strategies to be especially appealing. This sector enjoys much more attractive valuation as well as a number of other advantages. We like the traditionally lower volatility and the higher level of dividends. That should become more appreciated as market volatility becomes more historically normal, at some point.

Non-U.S. equity markets, both Developed and Emerging, appreciated more strongly than U.S. markets. There has been a combination of tailwinds that we expect to continue. First, economic momentum has clearly shifted away from the U.S. with Europe actually growing more strongly. Second, valuation remains lower and earnings momentum is positive. While U.S. companies have enjoyed very high profit margins (with limited scope for additional improvement), many non-U.S. companies have more potential for profit growth. Finally, currency trends favor international markets after a long period of dollar appreciation.

Returns of S & P 500 Stocks by Dividend Policy



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

Favor Floating Rate Loans

We have expected the rise in interest rates to be episodic. Fortunately, fixed income markets have a wide variety of choices. We entered 2017 with much higher weights in several "credit" sectors: High Yield and Senior Secured Loans. Both areas have performed quite well and have benefited our portfolios, despite still conservative positioning for Treasury and other higher grade fixed income.

As with equity markets, there are tougher choices to make now. High Yield has enjoyed huge appreciation over the past 18 months and is now richly valued. Spreads reached an extremely generous level of nearly 1,000 basis points (10%) above Treasury bonds in late 2015 on the back of the collapse of energy prices. We heavily increased our exposure then. Certain closed-end funds had the additional benefit of trading at large discounts to NAV. These were bargains, in our view. At just over 400 basis points of credit spread currently, there is very little, if any, remaining risk premium.

Thankfully, Floating Rate Loans (i.e. Senior Secured Loans) remain reasonably valued and well positioned. These securities benefit from being priced off short term interest rates given a flat "yield curve" and likely additional increases in short term interest rates.

Higher Grade bonds (Treasuries, Mortgages, Corporates, Municipal Bonds) are a different story. Interest rates remain very low and the yield curve has continued to flatten as the Fed has moved short rates higher, yet long rates have modestly declined so far in 2017. That can only continue for a limited time more, unless economic activity rolls over and inflation goes even lower. That could happen if it looks like we are moving into a recession, a low probability in our view over the next year.

Type	Spread Over 10 Year Treasury*	Duration
Floating Rate Loan	413	0
High Yield	374	4
Corporate	113	7.5

Duration: Measures price sensitivity to a 1% change in interest rates.
***Spread measured in basis points (100 basis points = 1.00%)**

Source: Eaton Vance Chart: Argent Wealth Management, LLC © 2017

A more likely path is that the recent softness in inflation data is, as the Fed believes, idiosyncratic and temporary. If inflation in the U.S. can move closer to the Fed's 2% target, then additional 25 basis point tightening moves will continue. We would expect a rise in the 10-year Treasury Bond to the 3% area over time, but not in a linear or fast way. However, getting towards 3% would restore quite a bit of value, especially if we continue to have contained inflation. We would likely add to our higher grade fixed income allocations under that scenario.

When Will Volatility Normalize?

Volatility is one of the most "mean reverting" features of markets. In simpler terms, periods of unusually low volatility always end at some point, just as markets cannot sustain episodes of unusually high volatility. For example, volatility was also super low over the summer months of 2015, but was quickly followed by a shocking 1,000-point drop in the Dow.

However, low volatility periods can last for a considerable time. So long as growth remains broadly based, evenly distributed and coupled with still very low inflation, central banks will remain accommodative. High debt burdens strongly suggest that central banks will err on the side of remaining accommodative for too long. The alternative is to risk an ill-timed recession and the possibility of deflation - the nightmare of every central banker.

As labor markets tighten, low inflation can last for only so long. The U.S. already has a low unemployment rate of just 4.3%. Many other measures of slack in the labor market such as help wanted ads and the "quit ratio" also show increasing tightness. At some point, employers will likely feel compelled to bid up wages, to some degree, as they always have in past cycles.

Of course, many other scenarios can also contribute to rising volatility. It is really a matter of "when," not "if" volatility rises. Below we explain what to do in this type of low volatility environment.

Focus on Risk Control

Many measures, such as rising margin debt, suggest that many investors are adding risk. That always precedes market tops, in fact, is a large contributing factor. While a true market peak may not be on the immediate horizon, some of the classic signs of excessive risk taking and extreme complacency are starting to appear.

Under such conditions, it is more critical than ever to focus on the appropriate level of risk. There are many ways that risk can creep into a portfolio, either intentionally or unintentionally. Of course, the true level of risk that is in a portfolio may not become fully visible until market volatility rises -- then it is too late.

A better plan is to be particularly vigilant about risk levels now. The primary focus should always be aligning tolerance for risk and strategic objectives. After periods of excessively good returns, it is rarely, if ever, a good idea to be chasing returns by substantially increasing risk levels.

Rebalance

The most critical technique in managing risk is a disciplined rebalancing process. Rebalancing is a time tested and proven process that adds material value over a market cycle. It requires rigorously setting strategic targets for the percentage that is allocated to each asset class and re-balancing back to those targets periodically (or after a big up or down change in the market).

This process can be more complex that it may seem on the surface. There are periods whereby we believe that it is best to let winning sectors or styles grow for a while before re-balancing. We are gaining confidence that the trend in International Equity can last as they are coming off of an extremely difficult five-year period, valuations look attractive, and earnings momentum is growing along with the economy. Therefore, we are content to let these positions run overweight for now. At the same time, we have been quick to re-balance Growth equities. Growth outperformed value longer than normal this cycle. We know long-term value tends to outperform growth and valuations in growth look less attractive than certain areas of value, especially dividend growth value. Therefore, we are more comfortable rebalancing and tilting away from growth.

"We are more comfortable rebalancing and tilting away from growth."

Rebalancing also works after market corrections or bear markets. While it feels like a long time ago now, equity markets went through a bear market that ended in February 2016. There were many incorrect predictions by market strategists of a deeper bear market. As it turned out, the market made a dramatic reversal, and the risk assets that we added to our portfolios then had a big positive impact on client returns.

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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.