Fear, Greed, and New Risks

Ten years ago the Great Recession began and the ensuing events unearthed unanticipated risks and fear across the global financial system. Financial regulation has tried to protect from another catastrophe with policies initiatives such as Basil 3, Dodd-Frank and the Fiduciary Rule. All valid attempts that got challenged, delayed and diluted. A common comment about regulatory initiatives is that they "fight the last war". As stewards of our clients' assets, we seek to prepare for the challenges that lie ahead by identifying, monitoring and managing new risks that could harm personal wealth.

As we reflect on the historically significant milestone of the last financial crisis, we are mindful of new risks that may influence stock and bond prices in the future:

1. **Private equity is an unregulated business** and it is attracting many new investors. Start-ups are using social media channels to raise capital. Public market funding and bank loans are less popular due to disclosure requirements and high levels of shareholder scrutiny. Hardly a reliable source of funding in periods of concern.
2. **Structured finance is thriving** using the securitized model. Documentation and credit quality are becoming increasingly weak. Structured products are building up in pensions and personal portfolios under the promise of diversified returns and better risk management "this time around".
3. **Central banks have encouraged excessive risk-taking** as they have added liquidity to the financial markets. This is one of the reasons the Federal Reserve Bank, European Central Bank, and the Bank of Japan are now seeking to unwind their accommodative policies.
4. Insurance companies have rushed into **alternative investments** for diversification and the higher return potential in their asset portfolios. Diversification may have improved, but the 'alts' investment adds illiquidity risk.

When managing portfolios, we believe it is critical to maintain a clear understanding of fundamental economic trends and emerging idiosyncratic risks. We are keenly aware that a **slowing economy** will lower the future value of financial and business assets. As we sense a pivoting economy, we will reduce risk exposures and take defensive positioning in order to protect our clients' capital. **Idiosyncratic events** cause damage when diversification is inadequate. We are committed to keeping **appropriate market exposure**. We strive to be consistent, calculated and careful as we manage risk for our clients.

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