SELECTOR® Money Management
2017 Third Quarter Review

The Third Quarter of 2017, Historically Problematic For Equities, Was A Walk In The Park

Every equity major market index that we monitor turned in positive returns. The S&P 500 Index was up +4.48%. This is a continuation of the advances that have been occurring year-to-date, with this domestic large cap equity index now up +14.24% at the end of the third quarter. Mid cap and small cap domestic equities, noticeably lagging at mid-year, kicked in during the third quarter and have significantly broadened the advancing front for domestic equities. This is quite significant because their lack of participation was being interpreted as a precursor of forecoming weakness for domestic equities. There is currently no doubt as to the strength and breadth of the U.S. equity market.

Sector Participation Was Equally Strong and Significant

In the third quarter, Industrials, Healthcare, Technology, Financial Services, Consumer Discretionary, and Basic Materials sectors all had strong performances, ranging from +3% to +8%. These are all considered to be growth sectors, also known as 'risk-on' sectors. Risk-on means that institutional investors add capital to these sectors when they have confidence in equity markets and willing to take on additional risk for greater returns. Risk-off sectors refer to those sectors which are historically more defensive in nature, and where institutional investors will fall back when they perceive that equity markets hold greater risk. Examples of risk-off sectors are Utilities, Real Estate, and Consumer Staples. Interestingly, Utilities and Real Estate also had positive third quarters of +1% to +3%, and all three sectors have excellent numbers year-to-date. Of particular note is the Energy sector. While still down -7% for the year, it had a positive third quarter, up +7%, breaking it's long-term downtrend.

International Equities Continue To Be The Main Event In 2017

At the end of the third quarter the MSCI World Index excluding the U.S., showed a gain of +19.17%, after gaining an additional +5.62% in the quarter. The MSCI Europe Index was up +22.49% YTD. And the MSCI Emerging Markets Index was up +27.78% YTD. These two indexes advanced by +6.58 % and +7.89 %, respectively, in the third quarter alone. We are fully invested in international and emerging markets equities, per our asset allocation restraints, in recognition of their performances year-to-date, and anticipating further institutional investor movement into these sectors as we approach year-end.

It Is Notable That All Of The Bond Market Indexes That We Follow Were Also Positive

Although muted relative to equity performance, every bond index we follow was positive in the third quarter, and is positive for the year. This is a strong indication of the 'lack of fear' that institutional investors hold for both equity markets and interest rate sensitive bond markets. The Federal Reserve has announced that they are 'unwinding' their massive balance sheet that was acquired during the quantitative easing programs. Translation, interest rates are going to be more reflective of actual supply and demand rather than artificial pressures that have been in place for the last eight years. This is a positive for financial markets. Less government intervention is a positive. The truth is, financial markets are quite capable of standing on their own without excessive government oversight. Free markets are the most efficient markets, both in equities and in bonds. Bond markets are on the path to that freedom. That will mean higher interest rates, especially on the short-term end, which is good and fair and long overdue.

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