# WORLDWIDE STRATEGY & OUTLOOK

Strategy Asset Managers

STRATEGY

The Worldwide Equity Strategy was up 2.9% in the 3rd quarter, lagging both the Global Benchmark return of 4.7% and the S&P 500 return of 4.5%. For the first 9 months, the pattern remained the same as we lagged both the Global Benchmark and the S&P 500. The Worldwide Equity strategy was up 11.0% for the nine month period, but lagged the Global Benchmark return of 15.5% and the S&P 500 return of 14.2%.

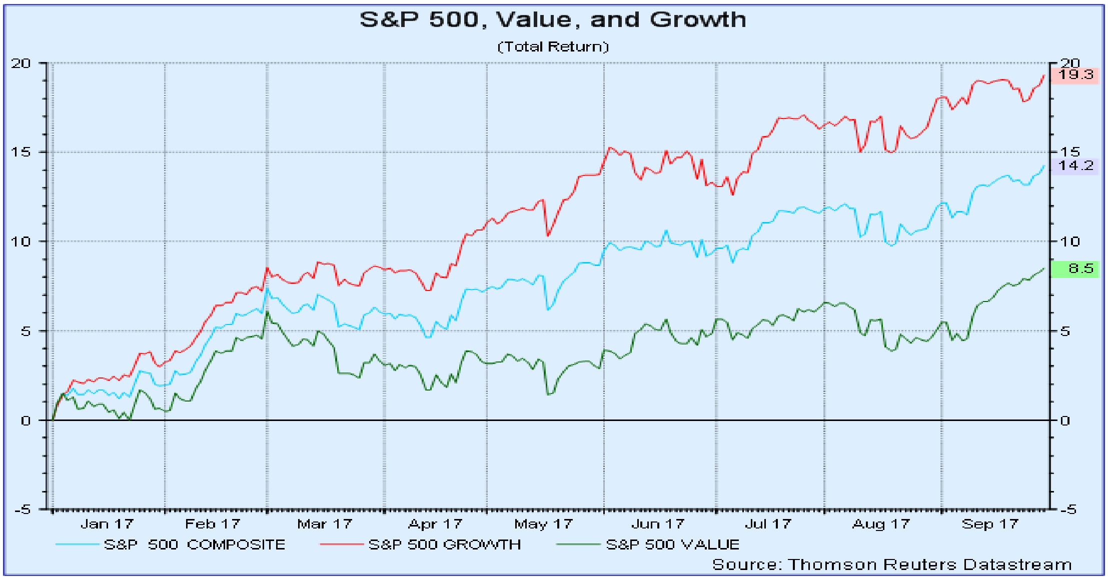
The Worldwide Balanced portfolios exhibited similar trends with a 3rd quarter return of 2.2% and 9 month return of 8.3%, compared with the Global Balanced Benchmark's quarter return of 3.0% and 9 month return of 10.1%.

We continue to exceed our objective of generating a real return that is excess of inflation and taxes, but why the underperformance?

The chart below demonstrates what is contributing to the underperformance issue. Growth stocks, which we believe to be significantly overvalued, continue to outperform Value stocks. It appeared that the trend was beginning to turn in the 2nd half of 2016 as value stocks outperformed, but that was short lived as growth stocks had strong performances for the first 9 months of 2017. The S&P Growth stock index was up 19.3% in comparison with the S&P Value index which was up 8.5% for the 9 month period. Our performance, 11.0% for the 9 months, outperformed the S&P Value index.

The chart below illustrates what occurred during this period, but if we extended the chart to encompass longer time periods, it would show that Growth and Value both outperform over various time periods. However, this has been one of the longest time periods during which Value has underperformed. For historical reference, Value, unlike Growth, did not produce any negative ten-year annualized return periods during the entire 1989-2016 timeframe.

We are outperforming the S&P Value index and achieving our real rate of return goal. However, we would like to see the market rotate back to better value metrics. Our companies are doing well and are selling at a discount to the market; at some point we expect to see the anticipated rotation back to value.




*The Worldwide Strategy & Outlook reflects the views of the Investment Advisor only through the date of this report, and should not be considered investment advice. The Investment Advisor's views are subject to change at any time based on market and other conditions. Please refer to the disclosure at the end of this report. Past performance is no guarantee of future returns. Portfolio characteristics are subject to change, and shown for illustrative purposes only. September 30, 2017*

The big disappointment this quarter was Teva Pharmaceutical. Despite being one of the leading generic drug manufactures in the world, Teva ran into corporate governance issues as they lost their 3rd CEO in 5 years. Transparency of the major management problems was not a standard offered by Teva in their communication with the investment community, and more importantly, to their customers. We decided to exit the stock and not wait for the turnaround.

The table below shows the top and bottom five performance contributors.

| Top 5 Performers in the Quarter | | Bottom 5 Performers in the Quarter | |
|---|---|---|---|
| Microchip Technology | 16.8% | Teva Pharmaceutical (sold) | -46.7% |
| Royal Dutch Shell | 15.8% | Altria Group | -13.9% |
| Bristol-Myers Squibb | 15.2% | Fluor Corp. | -7.5% |
| Lockheed Martin | 12.4% | Walt Disney | -6.5% |
| Diageo PLC | 23.8% | Nestle SA | -3.7% |

## OUTLOOK

Our “Goldilocks” outlook remains basically unchanged. Moderate economic growth (2-2.5%), low inflation (still less than 2%), low unemployment (4.2%) and relatively low interest rates should continue to support the stock market and corporate earnings. Overall market valuations remain on the expensive side of “average”, but not significantly so.

Our concerns last quarter about upcoming US budget negotiations turned out to be premature as the Administration and Congress effectively “kicked the can down the road” by tying a contentious temporary increase in the US debt limit to a popular bill for Disaster relief. The next episode for the budget will begin in December. While Geopolitical risks and natural disasters (our thoughts and prayers go out to those affected) abound, the stock market remains focused on earnings and newly heightened hopes of tax cuts (as actual tax reform appears less likely) resulting in dampened volatility.

We discussed last quarter the extremely low level of stock market volatility and the 3rd quarter saw a continuation of that trend. Looking back at the number of daily +/- 1% moves in the S&P 500 index shows a yearly average of 49 days for the five years ended 2016. For the first nine months of 2017, the total has been 8 – a significant variation from the past. With expectations of earnings growth for the third quarter currently centered in the mid-single digits (down from double digits of the last two quarters) should tax cut mania fade, we would expect a pick-up in volatility. Even with a return to normalized volatility, we remain constructive on the markets but with somewhat lowered total return expectations should tax cuts not materialize.