Triweekly Series

Ideas and Nuggets of News You Can Use!

LINDNER INSIGHTS

Uncertain for Certain

"I skate to where the puck is going to be, not where it has been."

-Wayne Gretzky

LCA
LINDNER CAPITAL ADVISORS, INC.

"Big enough to deliver, small enough to care"

A Registered Investment Advisor

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Uncertain for Certain

Not to say I told you so, but I told you so. It has finally started to happen. I know, even a clock is right twice a day.

Over the past 10 months, stocks, bonds and even commodities have started to price in the uncertainty I have taken for granted as part of investing since I began my career 28 years ago. Uncertainty of outcome is the entire reason some assets have more potential return than others. Uncertain outcomes are healthy for investors and investing alike. The uncertainty of an investment's future return keeps some investors on the sidelines. These sidelined investors offer the market future demand. If all available investors own stocks, there is little or no one to create future demand, a potentially dangerous situation.

Below are a few reasons for the current uncertainty to share with your clients.

- A rising cost of capital makes the future more uncertain. Short term interest rates as defined by the Fed Funds Rate have risen from near 0% this time in 2015 to the current target of 2.25%,[1] raising the cost of borrowing for business and consumers alike. Higher payments force people to think twice before they buy that car or house. A business will need more prudent planning before it builds that new factory. It is not a bad thing. People and businesses are supposed to think hard about borrowing money. The small amount of uncertainty you may now feel before borrowing money to make a major purchase is simply showing up in the price of assets you invest in (stocks and bonds). The charts below offer some perspective on where we are now and how much rates have risen already.

Federal Funds over the past five or so years:

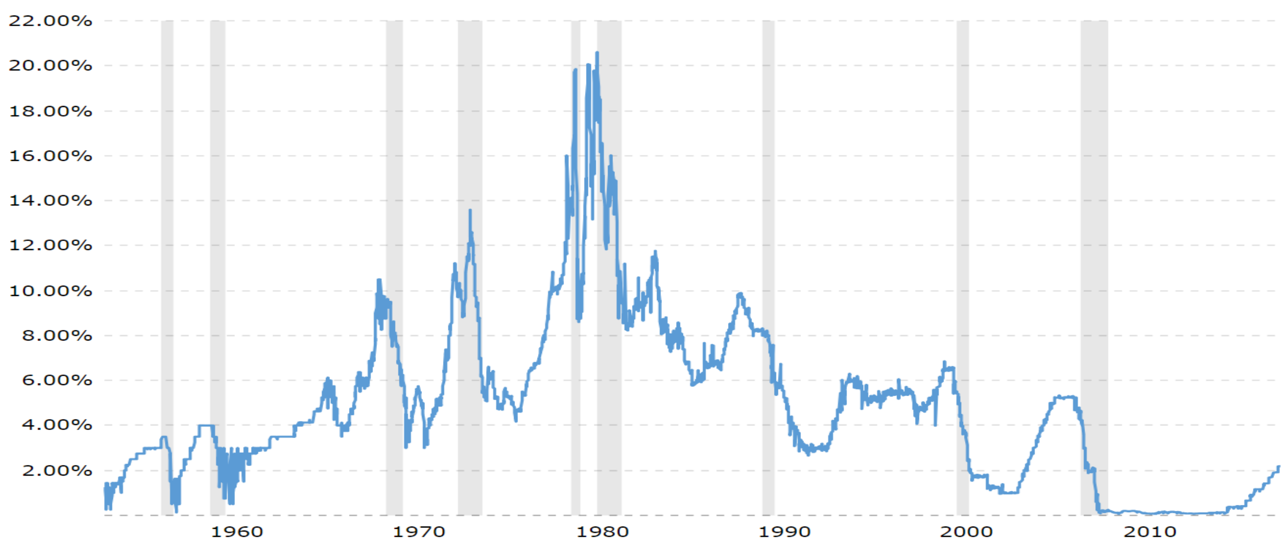
[1] https://markets.wsj.com/?mod=Home_MDW_MDC

Federal Funds Rate - Historical Annual Yield Data

Year	Average Yield	Year Open	Year High	Year Low	Year Close	Annual % Change
2018	1.75%	1.42%	2.20%	1.34%	2.20%	65.41%
2017	1.00%	0.55%	1.42%	0.55%	1.33%	141.82%
2016	0.39%	0.20%	0.66%	0.20%	0.55%	175.00%
2015	0.13%	0.06%	0.37%	0.06%	0.20%	233.33%
2014	0.09%	0.07%	0.13%	0.06%	0.06%	-14.29%
2013	0.11%	0.09%	0.17%	0.06%	0.07%	-22.22%

[2]

Federal Funds rate since 1954:



[3]

- Trade tensions have been running high and creating some uncertainty in both domestic and foreign equity markets. Company supply chains are threatened to be disrupted. The market tends, over time, to reward companies with a low cost of goods sold or low cost of production. By pushing production and sourcing overseas, many US businesses have become more profitable than ever before. If the future of profits becomes less clear due to trade tensions, stocks will respond to uncertainty over sourcing and production costs (usually negatively).
- Geopolitical problems, mainly Britain leaving the EU, Italian budget problems, Russia and Ukraine rattling sabers and/or whatever develops between the time of this writing and when it goes to print all cause uncertainty. Geopolitical events cause market volatility because they can

[2] https://www.macrotrends.net/2015/fed-funds-rate-historical-chart
[3] https://www.macrotrends.net/2015/fed-funds-rate-historical-chart

impact people financially and emotionally. When people fear war or large changes in governmental regimes, they tend to shy away from stocks.

- The aging bull market is probably least of my worries. As I have mentioned in past issues of this publication, records are meant to be broken, but are usually records for good reason.

The market’s volatility makes people nervous, and that is a good thing. The volatility (uncertainty) makes the market a safer place to invest for the long run. Part of Modern Portfolio Theory few people discuss is the expected return. High current returns should lead you to expect low future returns. Low or negative current returns should lead you to expect higher future returns. It makes sense, right? If your time horizon is longer than six months, embrace the uncertainty. We do. As always, thank you for your business.

About LCA...

Lindner Capital Advisors, Inc. is a federally Registered Investment Advisor based in suburban Atlanta, Georgia, with representation throughout the United States. Our investment platform provides access to institutional fund strategies and exclusive money managers that are not readily available to the retail market. Our portfolios are designed to be consistent with a client's unique investment objectives, individual time horizon, and tolerance for risk. LCA has been CEFEX certified since 2006 and is committed to our fiduciary responsibility.

Ask your Relationship Manager for a copy of "The Educated Investor" written by Robert Lindner.

For more information, call (770) 977-7779 or email portfolios@LindnerCapital.com.

Visit LCA's website at www.LindnerCapital.com

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