***"If you're buying something because it went up yesterday or last week, that's not a good reason for buying anything."* - WARREN BUFFETT**

<u>After a strong rally………..It's a time for caution!!!</u>

As investors bask in the glow of good returns from 2017 and have visions of more of the same in the New Year, it is instructive to step back a moment and review the current state of the capital markets.

To begin, it is good to keep in mind that following the collapse of 2008-09, the Federal Reserve led by Ben Bernanke embarked on an unprecedented program of quantitative easing (QE) that, over the course of four installments, pumped almost $4 trillion into the U.S. economic system. This action, combined with a ZIRP (zero interest rate policy) inflated the prices of many assets including stocks, bonds, real estate and some commodities. Investors became comfortable with the Fed Chairman and, in what became known as the "*Bernanke put*", believed that should anything happen to upset the market advance and the economic recovery, Bernanke would do whatever was necessary to rescue the markets and investors.

It's easy to see that after several years of this policy, investors were quick to assume that the new Chair of the Federal Reserve, Janet Yellen, would pursue a similar policy. For a while, there was a question of whether the markets were in a "risk-on" or "risk-off" period. However, for the last 18 months, the markets have settled into an extraordinary period in which there has not been as much as a 5% correction in the popular stock averages. A further confirmation of this period of investor complacency is the action of the VIX. The VIX, often referred to as a *fe*ar *gauge*, has hovered near all-time lows for much of 2017.

In this environment, general stock market valuations have risen to levels that are seldom seen but are often described as being *priced for perfection*. With this in mind, many investors have been forced out of their comfort zone as they sought attractive returns in areas of the market with which they are unfamiliar. For example, some investors believing that the U.S. equity markets are fully valued are now looking to foreign markets especially emerging market equities as clearly evidenced by the MSCI EM Index increasing nearly 60% over the past two years. However, any venture into foreign stock markets carries foreign currency risk as well as different accounting standards that make judging a stock's relative valuation difficult under the best of circumstances, especially outside developed countries. Additionally, traditional risk measurements consider those securities less risky due to a lower correlation with our domestic market but ignore the fundamental merits of those holdings.

In a similar fashion, fixed income investors, especially retirees, have been confronted with an even more difficult decision. Faced with record low interest rates on just about every financial instrument, investors have been searching for new ways to increase their investment income, a process known as "*reaching for yield.*" Wall Street, fully aware of this need, has created many new securities including some hybrid securities to be sold to these income starved buyers along with existing annuity products. Unfortunately, there can be considerable risk associated with these newly created entities. Since some of these instruments have little or no market history, there is no way to understand how these securities will respond in different interest rate scenarios. Furthermore, information regarding some of these securities is hard to find or simply unavailable. In many ways, it's reminiscent of the mortgage market crisis of 2007-08 when no documentation loans were the industry standard. Even though regulators were aware of the structures of these loans, there was no way to analyze how they would perform in a different market environment.

So, today it is important to step back from the fray and remember some timeless words of wisdom. When investing, be sure to do your homework, know what you own, and only become involved when you thoroughly understand the financial instrument you are considering for purchase. Ask all the questions possible and only make decisions based upon hard facts and historical data. Look for investments that have stood the test of time and have a record built upon solid fundamentals. Be willing to forego an investment if it does not measure up to your high standards. Remember, if it sounds too good to be true, then it probably is too good to be true.

In this regard, our team at Metis Value Partners (MVP), is dedicated to investing client portfolios only in securities that have been subjected to a thorough, in-depth analysis of their balance sheets and income statements. These securities must have a long term record of success combined with a well-articulated plan to maintain and improve their position within their industry while selling below our estimate of intrinsic value. Lastly, there are always bull and bear markets within the general market and our fundamental work will guide us to discounted areas of the market to find opportunities and create value for our clients over the long run.

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