Back to School Edition

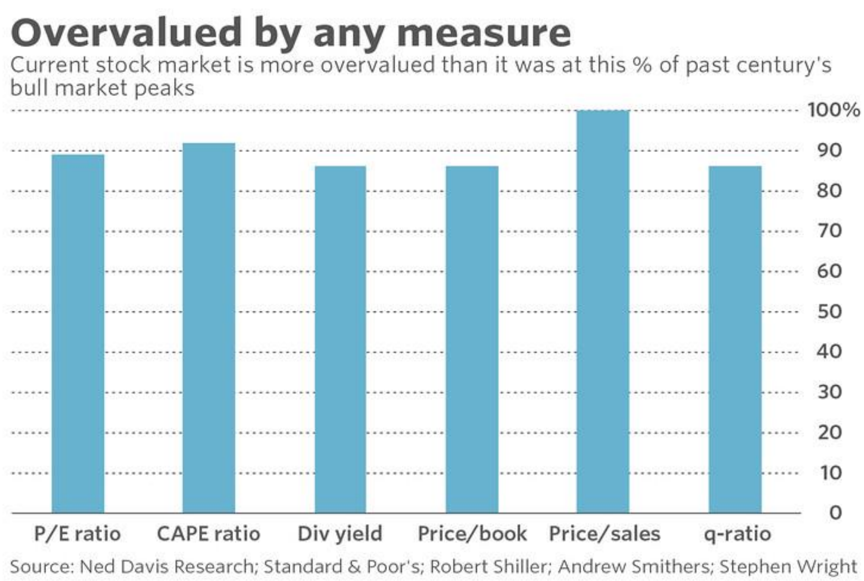
As we send our kids and grandkids back to school, we're reminded that the opportunity to be taught and to teach never ends. Our musings here represent just as much of the former as it does the latter and we trust you can benefit from the lessons we're being taught and seeking to internalize on a daily basis.

Markets

While our intention is to continually move beyond market commentary, we just couldn't help ourselves from saying something about stocks, particularly in light of the season in which we find ourselves (Sep and Oct are historically more volatile months) and the increasing global tensions that exist and seem to be growing.

Let's briefly talk about valuations on the US stock market in particular. As asset prices rise there can be a mix of joy and anxiety as we celebrate the growth of an investment and simultaneously wonder "how high can it go?" To be clear, the market is never to be trusted blindly because it is simply people who are prone to fear and greed. And, they may not always make the best investment decisions in the moment when attempting to process those emotions and the myriad of data points to be considered in the global investing landscape we find ourselves in. Given those emotions to which we are all subject to in varying degrees, it's critical to keep our eye on the facts and to let those facts inform a discipline that is not driven by how we feel on any given day. One such set of facts is the various valuation metrics used to determine how "cheap" or "expensive" the market is at any given point.

Below is a chart looking at some of the most common metrics used to determine how cheap or expensive the stock market is at a given point in time. If the bar on the chart is 100%, as it is for the Price/sales ratio, that means that the market has never been more overvalued than it is currently. A figure like the CAPE ratio at 90% means that there has only been 10% of the time when that metric has been higher than it is now. The point is that all of these metrics are at or approaching 100% which means that we are in overvalued territory on a historical basis.



It's worth noting that just because the market has made a new high doesn't mean it's necessarily poised for a downturn. Every point of market gain above the number 0 was at that time a new high that now is simply part of the chart. The absolute price of any asset, to include the stock market, is relatively meaningless without considering what that price buys you. For instance, if we ask the question: "is $10 for a meal expensive?" the next obvious response is "depends on what you're eating." If it's a McDonald's cheeseburger, you're overpaying. If it's a Kobe beef steak, it's a steal. The same is true with stocks. We have to understand what the price today buys us in terms of Earnings, Dividends and Sales. By any measure above the market is at the high end of its value range. This doesn't mean that it can't become even more expensive, it simply means that there is increasingly little room for error in corporate performance and likely more risk of a downside correction than there is of a significant upside move.

So, what do we do with this? The point in looking at this data is not to try and time the market. No sound investment strategy can be successful by only considering the data above. The point is to be aware and be prepared emotionally for the bear market that will ultimately come, practically in terms of how one's assets are positioned, and what defense mechanisms are in place in order to mitigate the impact of any market downturn. While we can make no precise assurances as to how any portfolio will fare, we have and continue to implement a number of safety measures in our models that can help us take the sting out of the next bear market and enhance returns over time. If you have questions or concerns regarding your specific holdings please talk to us. Our goal is to be in constant alignment with a clients' needs and expectations and to have that reflected in how funds are invested. If you know folks who are concerned with this current market and not sure what to do please feel free to send them our way. We can't promise that we'll have all the answers for them, but we'll do our best to educate and help them make more informed decisions for the future.

Thurston County Real Estate

Speaking of markets that nobody likes, let's talk about real estate. In case you haven't noticed, there's a housing shortage in Thurston County and, to some degree, throughout Puget Sound at large. Given the fact that a primary residence or investment property often represents a sizable portion of one's total net worth, we often find ourselves advising on and providing feedback to clients with respect to their real estate holdings be they residential or commercial. Believe it or not, we can't seem to predict what real estate values will do any better than we can the stock market, but we still need to be aware of the market dynamic and attempt to avail ourselves of good data in order to aid our decisions whether it's the decision to buy, sell or rent.

The Olympian had a very interesting and succinct piece on that very topic the link to which is here:
http://www.theolympian.com/news/business/article171646647.html

What was most eye-popping to us is the fact that, in one month, the median home price in Thurston County rose 5.7% from $$272K to $287.45K. Pierce County is even worse with the median home price rising 9% in the same time frame.

The core issue is not one of speculative excess but one of insufficient supply. Generally, a "balanced" market that doesn't favor either buyers or sellers is one in which there are between 4 and 6 months-worth of housing supply. Presently, we have a meager 1.43 months of supply which is causing prices to lurch higher. If you find yourself at a crossroads in the real estate market, not sure whether to sell into the strength or to avoid buying, please feel free to talk to us. We have these conversations all the time and, while we can't clearly foretell the future, we can often be of service in helping to clarify your objectives and identify the overarching goal you're trying to achieve. The market data is important but must be considered within the context of your own particular and unique situation.

Capstone Family News and Updates

Client Appreciation Event: September 19th

You should have received by now your “Save the Date” for our annual Client Appreciation Event, which will again be held at the Indian Summer Country Club. We hope to see you there for a fun and festive event celebrating you. For more information give us a call at 360-570-9888 or email Janine at janine@capstoneig.net. Even if you can’t stay for the entire event, we’d love to see you so feel free to drop by.

Update on Pat

As many of you know, founding partner Pat McClelland has undergone a routine foot surgery and we’re pleased to report that he’s now well on his way to recovery. Pat remained active (perhaps more than he should have) working from home and is now back in the office part time. We’re thrilled to have him back and thankful for his recovery thus far.

Next Month

We’ll be taking a closer look at cryptocurrencies and blockchain technology, as if we needed more technology with which to familiarize ourselves with. Be comforted knowing that it’s not as complicated as it sounds and, like it or not, the developments here could have significant impacts on how our financial system will function in the future and how value will be stored and exchanged. This could impact all of us. Stay tuned…

We thank you again for the privilege of serving you and we look forward to seeing you soon!

Kindly,

The CAPSTONE Team

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