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Expected Unexpected Events

BY BRIAN HRABAK, CFA, CHIEF INVESTMENT OFFICER AND SENIOR MANAGING DIRECTOR

A year ago, I authored a piece titled “Expect the Unexpected” which discussed the global political climate and hopes for stronger economic growth based partly on the heels of Donald Trump’s election. Thankfully, many global political events did not materialize which produced a fairly benign market backdrop. 2017 turned out to be a great year, with accelerating and synchronized global growth, which led to exceptional returns for investors across most asset classes.

Despite this recovery being long versus historical averages, bull markets do not die of old age. Though we are mindful of the length of the business cycle, our team is struggling to uncover economic data portending near-term weakness. The U.S. economy just recorded two quarters of 3% GDP growth[1] and indicators overseas are pointing to accelerating growth. That is not to say that everything is roses, but rather the current trend of a slow, shallow recovery with economic growth appears intact. Above average valuations (both equity and credit), waning central bank support, and uncertain politics all pose challenges which could dampen future returns.

A good piece of investment advice I can offer is often not from what is most discussed, but rather, what no one is mentioning. Last year, I mentioned not hearing much chatter about Emerging Markets, European equities, or distressed credit. It may not be a complete surprise that these investments had been out of favor in recent years and subsequently produced excellent results in 2017. Often a winning strategy is to gradually buy the unloved (and less expensive). While these areas carry risk and face

Hartland Continues to Bolster Team with New Talent

We are pleased to announce that we have added talent to the Institutional and Private Client teams with Jennifer Pinkerton, Noah Bill, A.J. Volpe, Megan Hamilton, and Gretchen Larman respectively.

Prior to joining Hartland as a Director in the Private Client Group, Jennifer Pinkerton spent six years with BNY Mellon as a Senior Wealth Director. Previously, she held various investment and client servicing roles at Key Investments, Chase Investments, and Salomon Smith Barney/UBS PaineWebber. Jennifer earned a BA in Psychology from Lake Forest College and Masters of Organization Psychology from Roosevelt University. She serves on the boards of Beech Brook and the Society of Financial Services Professionals, and is an active member of the Estate Planning Council of Cleveland.

Noah Bill earned his BS, MBA, and JD from Cleveland State University and joined Hartland as a Performance Analyst. Previously, Noah was a Research Analyst with Jones Lang LaSalle.

challenges, that is often where investors can realize the best prospective returns. Be mindful of the risks in "consensus" trades and look for opportunities away from the crowds. This could not be more pertinent right now with few compelling undervalued investments. The next several years may be more about relative value investing and maintaining a proper balance between risk-seeking investments and safety. Traditional fundamental value investing focused on high-quality companies with earnings and strong balance sheets that are currently mispriced seems somewhat forgotten in today's momentum and technology-driven market.

While no one can accurately forecast what next year holds, earnings and fundamentals appear in good shape, global growth seems intact, valuations are generally above long-term averages, yield is hard to come by, and the Federal Reserve is likely to continue its normalization of interest rates. The potential for increased market volatility exists due to changes in monetary policies, above average valuations, and many political unknowns. Maintaining a diversified investment portfolio that is consistent with your ability to withstand downside risks and meet return objectives is warranted. We also encourage investors to establish more modest long-term return expectations than those to which they may have become accustomed in recent years.

As we reflect on the year and celebrate the holidays and New Year with family and friends, ponder your most and least successful investments. What led to the results? Was it patience in maintaining a strategy that lagged? Was it buying when the market was falling and in an outright panic? Hopefully it was not luck, since that is far from a repeatable process. Sticking to your investment strategy and principles will increase your odds of success in meeting your long-term return objectives. At Hartland, we counsel our clients to do just that, to not sway in the wind, and to not chase the latest hot trend or market winners.

Cheers to a safe and prosperous 2018 for all!

Back to the Basics (Revisited Yet Again)

For my longer-term readers, I apologize, but it is back to the basics again which I find particularly important during periods when there are so few compelling opportunities. While these concepts will not always produce strong returns year in, year out, they can keep you poised for long-term success.

1. *Stay diversified to mitigate volatility and enhance risk-adjusted returns*
2. *Maintain perspective and long-term discipline*
3. *Expect volatility and take advantage of it; do not overreact to the inevitable short-term market swings, but rather, use these periods as opportunities to build long-term positions*
4. *Invest with a margin of safety to protect against significant losses*

Source:

(1) Bureau of Economic Analysis - U.S. Department of Commerce

A.J. Volpe holds a BA in Entrepreneurship from the University of Dayton and a Master of Accountancy from Cleveland State University. He is currently a candidate for the CPA designation. Prior to joining Hartland A.J. served as the CFO at Bittinger law firm.

Prior to joining Hartland as a Trust Officer & Client Service Specialist in our Portland Office, Megan Hamilton served as a Senior Tax Specialist at Berry Dunn. Megan holds a BS in Accounting and BS in Finance from the University of Maine and a MBA from Southern New Hampshire University.

Gretchen Larman has joined our Portland Office as a Client Service Associate. After a long career in business, Gretchen most recently finished a 12 year job as a critical care nurse at Maine Medical Center. Gretchen holds a BA in Economics from Kenyon College and a BS in Nursing from the University of Southern Maine.

These changes underscore the firm's commitment to building its investment consulting practice, promoting the next generation of leadership, and maintaining a rigorous investment process.

MARKET BENCHMARK RETURNS

November 30, 2017		1M	3M	12M	YTD
US Large Cap	S&P 500	3.1%	7.6%	22.9%	20.5%
US Small Cap	Russell 2000	2.9%	10.2%	18.3%	15.1%
Developed Intl	MSCI EAFE	1.0%	5.1%	27.3%	23.1%
Emerging Intl	MSCI Em Mkt	0.2%	3.3%	32.8%	32.5%
Real Estate	NAREIT	2.6%	1.9%	14.0%	9.4%
Core Fixed	BarCap Agg	-0.1%	-0.5%	3.2%	3.1%
Short Fixed	BarCap 1-3Yr	-0.2%	-0.4%	0.9%	0.8%
Long Fixed	BarCap LT G/C	0.5%	0.0%	9.5%	8.7%
Corp Debt	BarCap Corp	-0.1%	0.0%	6.0%	5.3%

Source: Bloomberg

The performance data shown represent past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.