



Michael D. Axel, CFA

U.S. stocks have continued their recent momentum, returning just over 3% in the quarter. They are now up 9.3% on the year.¹ International stocks have fared even better, rising 14.2% in developed markets and 18.6% in emerging markets year-to-date, helped in part by a weaker U.S. dollar.² A year or two ago, some investors were ready to throw in the towel on international investments. This is a reminder that markets are often “mean reverting” – that which has fallen may be more apt to rise in the future. Bonds have eked out a 1.2% return year-to-date, reflecting the low level of interest rates.³

We’ve mentioned in numerous past communications the conundrum facing investors in today’s markets. Because interest rates are so low, it is hard to find cheap investments. But there is a distinct possibility that rates stay low for an extended period of time. If this is the case, then there is no reason to expect investments to get cheaper; instead, they may stay relatively expensive, at least when compared with history.



Jacob D. Benedict, CFA

The past year everyone has been talking about how the Federal Reserve is finally raising interest rates. Since December of 2015, the Fed has hiked their Federal funds rate four times, from a range of 0% to 0.25% up to 1% to 1.25%. What has the 10-year U.S. Treasury done during this time? It’s gone from approximately 2.2% to...approximately 2.3%.⁴ Of course this doesn’t mean that interest rates can’t suddenly increase. Instead, we are simply making the point that interest rates are driven by a lot more than a small group of economists picking a number in Washington D.C. And if interest rates stay low, investors may have to get used to more modest returns in the future.



Ryan A. Kay, CFP®

But markets are of course made up of many different types of investments and assets. Value investors, a group to which we belong, constantly search the market for areas that are cheap and hopefully safe. Such bargains are often found in areas other investors have forsaken. Anytime we purchase an investment, we always ask ourselves, “Why do we think we are getting a good deal on this?” We are looking for some kind of *reason* why other investors are *irrationally* avoiding the investment. If it seems that everyone and their brother wants to own the investment, we are skeptical that it is mispriced. But if everyone and their brother wants to sell the investment, we are typically much more interested.

Of course our work doesn’t stop there. Most of the time, investments are unloved for completely *rational* reasons, or the investment itself is inherently too risky. Take one example: energy markets have taken quite a beating the past few years. Yet just because prices have fallen does not mean that there are good values in the sector. Surely a huge reason for the drop in prices is the advent and maturation of fracking technology, which has permanently lowered the costs required to pull oil and gas out of the ground. This has led to lower global energy prices which may persist for a sustained period of time, in turn permanently reducing the value of certain stocks dependent on energy prices. This doesn’t mean that there aren’t values in or near the sector, and indeed it has probably been a good place to look. But our point is that just because prices have dropped doesn’t mean it’s a good investment.

¹ As measured by the S&P 500 index.

² As measured by the relevant MSCI international indices.

³ As measured by the Citigroup 1-10 Year Government Bond index.

⁴ As of June 30, 2017 the 10-Year U.S. Treasury yield was 2.31%.

The last few years it's been tough to find unloved areas of the market. It seemed like everything was simply marching higher in lockstep. But the past few months we've seen more divergence among different sectors of the market. We hope this leads to new investment opportunities despite elevated stock market prices overall.

Sincerely,

Michael D. Axel, CFA
Jacob D. Benedict, CFA
Ryan A. Kay, CFP®

Ian Rolland: A Bias Toward Action

Ian Rolland, the longtime Chairman and CEO of Lincoln National Corporation prior to its move from Fort Wayne to Philadelphia, passed away on July 1, 2017. Ian was the rare CEO who saw his company's success intertwined with the success of his community. And he responded by working tirelessly all the way up until his death to help build a strong city with strong institutions. This approach to corporate management is rare in today's world. Yet Lincoln shareholders in no way suffered – Lincoln's stock performed very well over Ian's twenty-year tenure as its leader.

One of Ian's colleagues commented: "It's hard to describe his effect on our part of the world. He was someone who did what was right, regardless of the risks."⁵ Ian wasn't afraid to take-on controversial issues, such as racial inequality or equal rights (which earned him both praise and criticism). Both Ian and his wife Mimi have had a profound impact on many Indiana organizations, including the Fort Wayne Museum of Art, Arts United of Greater Fort Wayne, Headwaters Park, East Wayne Street Center, Timothy L. Johnson Academy, Junior Achievement, the University of St. Francis, and DePauw University. In 2012, Ian received the Sachem Award, Indiana's highest honor.

Despite his many accomplishments and clear abilities, Ian was incredibly humble, and treated each person he met with the same amount of kindness, respect, and interest. After learning about Jacob's interest in Abraham Lincoln, Ian arranged for a tour of the Lincoln Financial Foundation Collection at the Allen County Public Library. Many Fort Wayne residents are unaware that the downtown library houses one of the most important collections of Lincoln artifacts in the country, including family portraits, letters, and signed copies of the 13th Amendment abolishing slavery and the Emancipation Proclamation. When the Lincoln Museum closed years ago, a number of heavy hitters vied for the items in an open competition, including the Abraham Lincoln Presidential Library and a group from Washington D.C. organized by the Smithsonian and the Library of Congress. Guess who won? A small group of local residents pulled together by Ian, who put together the winning bid along with the Indiana State Museum (where part of the collection is held). Surely many stories like this will be told as people celebrate Ian's life. During the tour, each library worker shared a story about how Ian had personally impacted their life.

For those who are interested, Ian, along with author Donna Reynolds, published a memoir last year titled "With a Bias Toward Action." It can be purchased online from the Allen County-Fort Wayne Historical Society at the following link: <http://www.fwhistorycenter.com/wordpress/store-2/products/ian-rolland-with-a-bias-toward-action/>. The proceeds from the book benefit the historical society and the Lincoln Collection.⁶

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⁵ Larry Rowland.

⁶ Jacob sits on the Board of Trustees for the Lincoln Collection Endowment.