

Strategic was selected to provide expertise as a panelist in the CNY Business Journal Financial Quarterly publication. Please read below to find out our views on the market, economy and investing. Strategic Financial Services is a registered investment advisor managing and advising on over \$800 million in client assets.

Q. What is your view on where the financial markets are headed in the coming months?

A. Our base case scenario calls for the equity markets to trade into a higher range over the coming months. Solid company fundamentals should begin to provide support against the uncertain macroeconomic backdrop.

The “*risk-on/risk-off*” short-term focus of the markets will continue to dominate investor behavior. As a result, stocks will undergo additional bouts of unusual volatility in the months ahead. Several situations bear watching as investors navigate these choppy waters. Specifically, the euro zone debt crisis and a stalled economic recovery in the developed world are all too familiar narratives. Competition for the lead story is heating up, however, as social unrest; the election cycle and a potential slowdown in China enter into the picture. In the midst of such uncertainty, it should be no surprise that investors are largely ignoring company valuations and earnings....for now.

Q. Provide specific recommendations for investments that clients should be making right now.

A. Strong performance at the corporate level has been overshadowed by big picture concerns. Investors have become increasingly risk adverse, overlooking strong bottom-up fundamentals in favor of the perceived safety of bonds, gold and even cash. And although we expect to see earnings estimates come down a bit in the coming months, value can now be found in many segments of the stock market. Over the past decade, for example, the earnings of large companies as tracked by the S&P 500 Index have more than doubled while share prices have remained relatively flat. And while stocks can stay inexpensive for an extended period, we see this trend reversing, perhaps powerfully, in the years ahead. Strategic believes that stocks are positioned to outperform bonds over the next decade and that today’s prices offer an attractive entry point. Patient investors could be rewarded handsomely for taking prudent risk in the stock market now. Future performance is never guaranteed.

While we prefer to approach the discussion of investment recommendations within the context of a portfolio perspective, we understand that specific stock picks are more likely to garner the reader’s attention. With that said, the communication equipment company Qualcomm (Symbol: QCOM) deserves a look. Significant intellectual property rights in the growing wireless business make the company a leading beneficiary of the mobile smart phone revolution. A clean balance sheet, strong cash flows and attractive valuation add to the stock’s appeal.

Q. What are some specific alternative investments (i.e. commodities, currencies, real estate, land etc.) that clients should be considering now?

A. In an uncertain macroeconomic environment featuring extraordinarily accommodative monetary policy, the looming threat of inflation and extreme volatility; hard assets certainly warrant a place in investor accounts. These holdings tend to offer diversification benefits within a traditional portfolio of stocks and bonds. At Strategic, marketable alternative investments are included in client portfolios where suitable. These investments include exposure to precious metals, natural resources and real estate.

Q. What do you see as the greatest risks investors need to be aware of and seek to avoid in the coming months?

A. Benjamin Graham, the original practitioner of value investing, opined that true investors, as opposed to speculators, need not be overly concerned with the daily fluctuations of the stock market. This is, of course, easier said than done, but there is certainly a kernel of truth in his wisdom.

When a market is overly focused on macroeconomic issues, there exists the heightened risk that individual stock prices will overshoot to the downside as investors react to headline stories. Emotions, left unchecked by a disciplined investment approach, can lead to ruinous investment decisions. Investors must prudently allocate investment capital within a customized framework of well-defined risk and return objectives so that portfolios are properly positioned for the inevitability of the occasional stock market sell-off.

Alan R. Leist III CFA
Managing Director

Disclosure:

Strategic owns Qualcomm Inc. in at least one of our equity strategies. The security identified and described does not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. A full list of securities held in our equity strategies over the past 12 months will be presented upon request.