Quarterly Client Newsletter

1st QUARTER 2017 REFLECTION

BY ALEC BETHURUM
SR. PORTFOLIO MANAGER

The first quarter 2017 was a continuation of the trends we observed in the fourth quarter of 2016. Despite the political noise induced by the transition of power in Washington DC and the Fed raising rates, the broad equity markets pushed higher. Domestically, the S&P 500 was up over 5%. Internationally, equity markets were even stronger. Emerging Market indexes bounced back from a weak 2016. European Markets were strong, despite the official initiation of Brexit and rancorous and still unresolved French Elections. In fixed income, despite hawkish rhetoric from the Fed and a 25 basis points rate hike, the domestic bond market exhibited benign behavior and finished the quarter with a gain of nearly 1% in the Barclay's Agg.

This relatively uninterrupted five-month lift in domestic equity markets has left us somewhat circumspect, in the short term, on the potential for broad equity appreciation. The move has also lead us back to one of the most important elements of long term investment success "PATIENCE!"

In general, human beings seem to be terribly impatient. Scientists believe the human tendency toward a lack of patience is evolutionary in nature. During primitive times, when life expectancies were low, those who reproduced early in life were more likely to pass on their genes to others. This "impatience" to reproduce then potentially became a dominant trait in subsequent generations.

Such a natural tendency to "want it now" has only been exacerbated by the technological advances of the last half century. In fact, the availability of minute-by-minute prices and the capacity to execute financial transactions without human contact has been one of the most utilized technological advancements of the new millennium. A good proxy for the increasing impatience of market participants is the average holding period of NYSE stocks. In the late 70's, the average holding period was 6 years. Today it is 6 months! Such manic behavior has only been exacerbated by the availability of tools that allow investors to trade bunches of stocks at the same time for non-fundamental reasons.

Nassim Taleb, author of the famous investment book, The Black Swan, smartly states that in the short-term the client is witnessing the variability of their portfolio not the returns. Unfortunately, the investment world currently is rewarding managers for a lack a of variability rather than an abundance of returns. Money is flowing out of active mutual funds and into passive index-ETFs, which are funds with no variability from the index. Executives at asset management firms, being short-term oriented themselves, have allocated resources away from active management toward passive further accelerating the trend as their salesforce gravitates toward the product that is selling!

For our purposes, this lack of patience is a human and investor tendency to be exploited for long-term gain. We believe the concentration of money in a smaller and smaller universe of stocks is leading to greater valuation differentials between those stocks which are heavily weighted in indexes and those that aren't. Not only are the index heavy stocks already trading at high valuations, versus historic norms, but they continue to be bought for non-fundamental reasons as investors allocate to indexes and not individual stocks. This phenomenon is creating outstanding opportunities for stocks which are not widely allocated to indexes and that are undergoing cyclical downturns. This "index orphan" status, coupled with negative short-term news is leading to companies trading at extremely low valuations, some stocks trading as low as 5x long term EPS. In our opinion, these names offer extremely high reward-to-risk ratios and these sorts of situations have been the focus of our most recent equity purchases, particularly in the more aggressive portfolios. In the near-term, these names also require patience as the market realizes the cyclicality of the business, and the business turnarounds become more apparent. This concurrent change in fundamentals and sentiment often leads to a slingshot repricing of the underlying security.

As the calendar turns toward Spring and Summer we look forward to better weather and hopefully continued appreciation in financial markets. As always, we appreciate your business and encourage you to reach out with any questions or concerns.

MISSION As a fiduciary we commit to excellence and high standards as we deliver tailored portfolios and financial planning to reduce risk, improving the probability of our clients' success.

CORE VALUES
Client-Centric Stewardship
Integrity
Excellence
Team Work

MARK YOUR CALENDAR...

Growing green this spring.

Tuesday, April 25th

5:30pm-7:30pm

Sterneck Capital Management
4510 Belleview, Ste 204

Join us for spring-inspired cocktails and small plates as you enjoy the company of friends, and hear fresh ideas on *investing with purpose* beginning at 6:30pm.

(special preview of our next non-correlated investment offering)

Guests welcome.

To register: 816.531.2254 or info@sterneckcapital.com

NOTE: This section contained information restricted to specific Sterneck Capital Management clients and has been blocked from public view.

QUARTERLY INVESTOR CALL

Join us for this quarter's call

Tuesday, April 25th @ 10am CST

To register: 816.531.2254 or info@sterneckcapital.com

SCALING IDEAS

BY FRANK STERNECK, CO-FOUNDER & CHIEF INVESTMENT OFFICER

I like to use this space to update our clients on important changes and activities at Sterneck Capital in the preceding quarter. This past February, Regan and I attended the Investor Meeting for Vida Capital and Ovation Capital, two of the private, non-correlated funds we have been investigating and advocating in recent quarters.

The growth in these funds in the past 12 months is evidenced by both the significantly increased asset size as well as the level of attendance at the investor day. We believe the increased interest confirms what we have known for some time, that these funds offer outstanding returns with lower volatility then traditional assets classes. Further, these asset classes, particularly life settlement, offer wider diversification and returns that have little to no relation to economic or interest rate cycles.

Our confidence in Ovation and Vida has only increased since the time of our original purchases. Our initial and continued due diligence has been supported by the consistent returns the funds have generated as well as by our continued work on the quality of the strategy and the firm's management.

These types of products are one of the primary areas where we add value as a financial advisor. During this period of historically low interest rates, as well as a protracted bull market in equities, our work to find income generating assets with low market correlation is particularly beneficial to all our eligible clients. We encourage our clients, who are not currently invested in these products, to reach out to your Sterneck representative to see where they may fit in to your long term financial plan.