Time to Check Complacency and Check Up on Portfolio

By Thomas Connaghan
KAYNE ANDERSON RUDNICK

It's been one year since the presidential election surprise seemed to barrel in with no clear roadmap for the direction of the markets. Heading into 2018, President Donald Trump's political ascent has in many ways challenged our market outlook sensibilities with his trademark doctrine of unpredictability, no matter where we fall on the political spectrum.

The first half of 2017 called for patience, as I advised some anxious wealth management clients to remain calm and refrain from knee-jerk reactions to market events, whether from a new political agenda or Federal Reserve stirrings. That still holds true, but new tactical advice is in order as investor anxiety has refocused around a pending market correction with stocks reaching all-time highs heading into the ninth year of a bull run. The questions have gone from, "Should I yank money out of the market?" to, "Are asset prices too high?" and "What do we do now?"

With the current Administration, there remain many unknowns with trade policies, tax reform, healthcare, global relations and other administration agenda items. While we've seen a number of turnabouts, including growth surpassing value, large cap overtaking small cap, and global markets outdoing the U.S. in equity returns, the market overall has consistently moved up across asset classes as global earnings have risen. We've seen some degree of complacency take root as events are shrugged off by the market, but we can be sure a correction is in order, even if we don't know when.

We urge investors not to let the upward trajectory and low market volatility distract from the importance of conducting basic due diligence. We prescribe a "portfolio checkup" to revisit financial plans to help sustain long-term health, review tax positions, screen for potential balance sheet blind spots, and ensure holdings match risk tolerances.

Investors should know what they own, and consider whether they have too much cash, overly concentrated positions, or irrelevant estate plans. It might be time to prune outsized stock holdings. It might be time to seek out alternative investments with more downside capture and less interest-rate sensitivity, or identify high-quality companies with durable earnings growth, strong balance sheets and a high return on capital that typically hold up well over market cycles, including bear markets.

So, the question shouldn't be, "When will the market correct?" but, "Is my portfolio ready for whenever it does?" It's time to put the fear in context, accept that we no longer have the comfort of consensus, and start making adjustments. ■

Thomas Connaghan is a Senior Wealth Advisor for Kayne Anderson Rudnick, a boutique wealth advisory firm, providing comprehensive wealth management solutions to institutions and high-net-worth individuals. The firm is currently ranked #1 on Barron's list of Top Independent Financial Advisors and has been among the top 10 for the last four years.

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