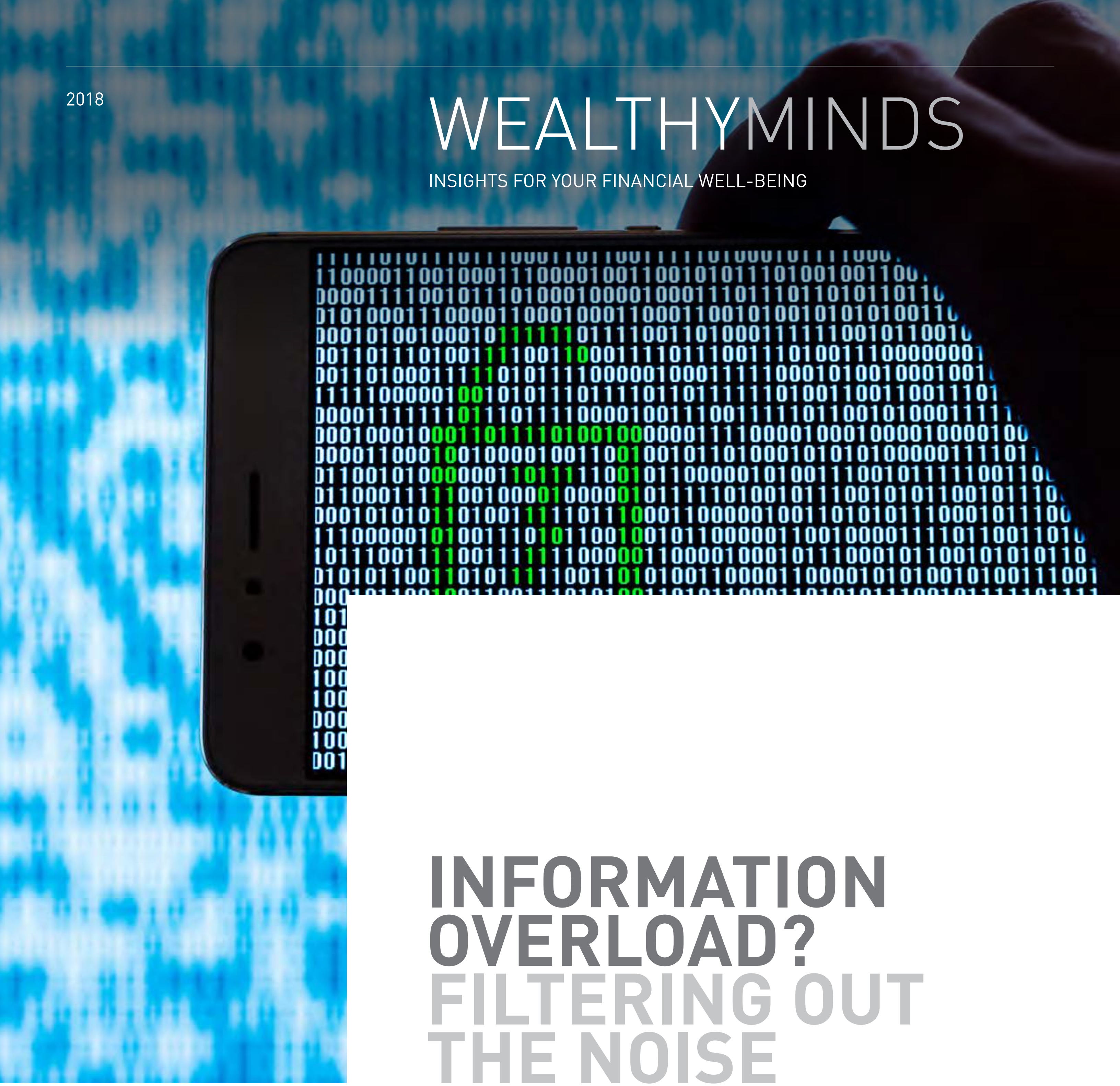
2018

WEALTHYMINDS

INSIGHTS FOR YOUR FINANCIAL WELL-BEING



INFORMATION OVERLOAD? FILTERING OUT THE NOISE

People's United Advisors®

INFORMATION OVERLOAD?
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DON'T BE OVERWHELMED

Investors must use "filters" to separate the signal from the noise–this will improve their decision-making and investment performance.

There's a universe of data out there. And if you're like most people, you probably feel overwhelmed by the constant stream of information that falls into your lap, like it or not..

2,500,000,000,000,000,000!

Three years ago, IBM reported that every day 2.5 quintillion bytes of data were being generated (there are 17 zeroes in that number).

Doubtlessly even more data are being created today. While not all these data bytes apply to investing, investors could be forgiven for thinking they do.

Investors face a daily barrage of information 24/7 from newspapers, magazines and journals, TV, investment newsletters, market charts, a seemingly infinite number of on-line sites—and more.

How does an investor separate the wheat from the chaff—especially since the data tend to be anything but smooth? Last year, for example, investors were presented with a U.S. government report in August that 221,000 new jobs were added, followed by a dismal 14,000 in September and a robust 271,000 the next month. What was the "truth" about jobs creation over that three-month period? (As it turned out, somewhere in the middle: September and October marked 2017's low and high points.)

A Quick Guide to Evaluating Information

Here are our recommendations for culling economic and investment "signals" from the "noise":

- **Evaluate the source:** This advice may seem obvious, but it isn't always as easy as preferring The Wall Street Journal to a rogue on-line website. Is the source politically biased? Has the source convinced you that its own sources are reliable? When were the data generated—and how? (Old or sloppily-gathered data may be worthless.) Do you already have confidence in the source, or is this the first time you've seen it?

- **Don't get caught in the moment:** Economic data are notoriously volatile, as the monthly U.S. job numbers above illustrate. While that example is extreme, GDP growth, consumer confidence levels, business spending, inflation, and interest rates, to name just a few key factors, all bounce around from reading to reading. The long-term picture is what counts in evaluating economic data—or investment performance.

- **Look for a balanced presentation:** Economic and market trends are often hard to discern, and rarely linear: There are usually "bullish" and "bearish" cases to be made, and good data analyses often refer to both, even though they generally come down on one side or the other. A measure of balance about tailwinds and headwinds is a sign of intellectual honesty.

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SEPARATE THE SIGNALS FROM THE NOISE

Use your filters **wisely.**

- **Recognize that economics and the financial markets aren't always in synch:** Investors should never be cavalier about economic signals, but at the same time, the markets can march to their own drummers. As the late Nobel-Prize-winning economist Paul Samuelson famously said a half-century ago, "The stock market has predicted nine of the past five recessions."

What Are the Signals Saying Today?

The following are what we see the signals telling us today:

- **Economies in the developed markets worldwide are probably on an upswing, though to different degrees in different regions.** Leading the pack is the U.S., with creditable economic growth likely to continue, a judgment reinforced by the Federal Reserve in June. Consumer confidence is strong, the unemployment rate not far from a historical low, and business investment improving after a long hiatus. Abroad, growth in the European economy and Japan has been slower, though generally strengthening. Risks to the downside include climbing interest rates, a rising debt level and inflationary pressure in the U.S., and global trade and political tension.

- **Key central banks are pulling away from easy money.** Investors should always pay attention to central-bank policies worldwide. The U.S. Fed continues to raise short-term rates, albeit modestly and in a measured fashion, in response to good economic news. The European Central Bank is still accommodative, but less so, as it plans to end its bond-purchasing program after year's end. We expect more of the same to come.

- **U.S. interest rates are on the rise.** As the domestic economy grows, the labor market recovers, and the Fed tightens, interest rates are going up, and will likely do so into the intermediate future. We don't see extravagant rates on the horizon, and though higher interest rates depress bond values, they also mean more income for investors. Still, rates—and inflation—inching up could signal an economic downturn to come.

- **U.S. stocks are somewhat pricey, but not at stratospheric levels—nothing like the overvaluations we saw in tech stocks in the late '90s, and a bit calmer after the market peak in January.** We do see continued opportunities in U.S. stocks, though probably more selectively than in stocks abroad, which are priced more cheaply.

- **The U.S. tax cut should prove simulative—though how much so remains to be seen.** Early signs are positive, but a lot depends on how much of the tax cut is used productively, including for business investments and higher employee salaries.

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WHAT SIGNALS MATTER?

Several of the **key indicators** that we focus on are:

Economic Growth (GDP)

Central Bank **Policies**

Interest **Rates**

Stock **Markets**

Tax Policy

- **After almost a decade-long bull stock market in the U.S. and high returns from many asset classes, investors should set their sights lower.** This is not a market-timing call, but many of the conditions that sparked exceptional investment markets after the 2008 crash are no longer as positive. At the least, U.S. annual stock returns may be in the single rather than double digits over the next few years.

This is by no means a complete list of what we think the "signals" are telling us—and we may be proven wrong about any one or more of our judgments. No one, including us, has a crystal ball. But we think that we've separated out some of the important signals for investors.

Don't Go It Alone

As we suggested above, don't try to figure out and interpret all the signals by yourself. A financial advisor—often working in tandem with a tax expert and perhaps an accountant or attorney—can help identify the important variables and translate what they're saying at any given moment into investment advice customized to your unique situation.

Most investors approach the markets with a mixture of fear and extravagant hope. Neither is likely to lead to good investment choices; indeed, opportunity is typically created by exploiting anxiety and greed in other investors. As PUB Chief Investment Officer John S. Traynor put it in a 2017 quarterly, "We must acknowledge, embrace and control emotions, understanding that in the end facts will prove out." Those "facts" are what true economic and market signals convey.

Come to see us at People's United Advisors about prudent investing.

People's United Advisors can help.

Please contact us at 1.800.772.8778 or visit peoples.com

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