CAPTRUST | Financial Advisors

Consulting Research Group

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Global capital markets remain volatile as investors continue to monitor two significant developments: the U.S. Debt Ceiling debate and the European sovereign debt crisis. We expect a rather swift resolution on the Debt Ceiling but a very slow one regarding the more structural European issues, but both remain highly fluid situations. While the popular press and media attention focus almost exclusively on the doomsday outcomes of both events, we urge clients to shift their focus to diversification and a keen awareness of their own time horizon.

First, our view on both the issues outlined above is that they are highly uninvestable events. Investors typically rely on fundamental and/or price-based indicators when making investment decisions, devoting time to analyze several relevant variables before deciding to buy or sell a given security or asset class. A core investment tenet is the concept of a research "edge," or a byproduct of an investment process that allows an analyst to reach a defensible and thoughtful buy or sell conclusion. While no one can predict the future, a repeatable and sound research edge can lead to the improved odds of a favorable outcome for investors.

As an analyst, one of the most challenging variables to assess is policy maker decisions, no matter what country or region. Given the current political acrimony in Washington and the perceived magnitude surrounding the Debt Ceiling debate heading into an election year, assessing the debate's outcome is ambitious at best. As of now, what we do know is that the White House has set a deadline of this Friday for a debt deal to materialize before the Treasury Department runs the risk of missing cash payments on certain obligations. While pundits offer predictions without recourse, the bottom line is that no one really knows (1) how the rest of this week will materialize in terms of political deal-making and (2) how the global capital markets will react to these developments. Given an established (but subject to revision) deadline and the capital markets' attention to this debate, we would expect a more rapid outcome here than in Europe.

The European picture is also policy maker-dependent. Given the visible difficulties in Greece, Ireland and Portugal, the more recent flare-ups in Spain and Italy and concerns about further contagion, investors have been skittish. To be sure, riskier asset classes and the more tenuous markets have seen relentless selling pressure. Only when perceived intervention from the European Central Bank, International Monetary Fund or European Union appears likely have markets calmed. Again, given the range of countries and cultures involved, nascence of the European Union and questions regarding the extent of exposure to troubled areas by banks, governments and other institutions, the path forward could take several turns.

So what is an investor to do?

Our view is that while there are rarely universal answers for investors, the wide range of potential outcomes takes us back to two concepts that have material applicability in today's market. First, investors need to be keenly aware of their time horizon for investing. Both events outlined above, one with a likely swift outcome and the other with a more prolonged and staged life cycle, could cause disruption in financial markets, sending asset prices lower than current levels despite recent weakness. Those investors with shorter-term needs for capital deployed in riskier asset classes should rethink that positioning. No matter how ephemeral or enduring price weakness may be, investors tend to make bad decisions during periods of market contagion or dislocation. If we can help you think through or update your needs and how they relate to your portfolio, please let us know.

Second, diversification will likely return as a key benefit for investors going forward. With few exceptions, asset classes have demonstrated high correlations in this "risk on/risk off" world where securities seem to move higher or lower in unison on any given day. Because it is unclear what the market reaction may be with respect to either issue, we continue to promote diversification across major asset classes (stocks, bonds, alternatives) as well as within major asset classes. Traditional safe-havens like US Treasury bonds may not act as they have during prior stress points, so having exposure to and within multiple asset classes is a prudent step.

I want to make sure that our messaging is clear; we are not saying that either issue will necessarily bring asset prices lower. In fact, the above two events could be resolved quickly and in a manner viewed as market-favorable, causing some recently punished asset classes to move dramatically higher. For the capital that CAPTRUST oversees with full investment discretion, we remain at normal or "target" weights across major asset class categories. However, the range of outcomes is wide, and those opinions are subject to change given news flow and market reaction. Providing client-specific ideas and implementing relevant strategies are key roles of ours for clients during periods like the present. We will continue to update you on our thoughts and welcome your questions. As always, thank you for your trust.