

In follow up to last Wednesday's commentary on the dramatic market selloff, below is a quick update from Chadd Mason, Cabana CEO and co-founder.

Following last Wednesday's market drop and my commentary, our algorithm signaled a scene change and we have re-allocated to more defensive positions. We remain overweight in equities but the character of those equity positions has changed. We have moved out of higher beta (risk) positions and into large, non-cyclical dividend payers as a rule. We have also reduced our exposure to foreign markets and increased our bond exposure. All of these steps were taken to protect against further losses should the current selloff continue. Today, equity markets continue to try to stabilize and volatility is elevated. We have now witnessed two weeks this year when investors have literally sold all assets and run for the exits. The first occurred in February and the second last week. Both events coincided with a huge jump in interest rates and resulted in "nowhere to hide" market conditions. Widespread fear of rising rates, coupled with a U.S. trade war with China (the world's second largest economy) is a recipe for a rocky investment road. Year-to-date international stocks are down significantly, as are bonds and real estate. Even gold is down and it usually catches a bid when times get tough. I read this morning that although the S&P 500 is currently up for the year, 176 of the 500 stocks in the index are down more than 10%. I believe all of this pain can be attributed to rising interest rates in the U.S. and the ensuing strength in the dollar. While the impetus may be good, in that we are experiencing record low unemployment as well as blowout corporate earnings, the fallout in other assets is being felt. In many respects, investing is a zero sum game. When money flows to one place, it necessarily leaves another. I will opine once again that we need other economies to participate if we want to keep this bull market going. We are now entering what is expected to be a great earnings season and I am hopeful that we will regroup and focus on the strong underlying fundamentals. This could very well lead to a fourth quarter rally into years end. During the interim, we will stick to our process, avoid predictions and remain true to our mantra of avoiding losses when possible.

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