

Dear Clients and Friends,

Happy New Year – we wish you all the best for a happy, healthy and prosperous 2015. In 2014, we had the good fortune of adding two new employees, Laura Floyd and Tyler Murphy. We have also been recognized as 2015 Five Star Wealth Managers* that will be highlighted in an upcoming issue of *Boston* magazine.

A Looming Question for 2015: Are Stocks Overpriced?

The answer to the above question varies depending on who you ask. In a 2012 quarterly letter, we wrote, “The considerable debate focused on the valuation of equity markets is not new, but has regained momentum given the run up in stocks since the March 2009 equity market bottom. While a fair number of reputable analysts will view stocks as historically cheap, pointing to attractive ratios of stock prices to book values and measures like multiples of forecasted earnings and cash flows, others will argue that stocks are expensive based on their valuation model of choice.”

The debate of market valuations continues. For the last several years, there has been a ratio frequenting financial headlines, co-developed by Nobel laureate Robert J. Shiller: the CAPE ratio. Standing for “cyclically adjusted price-earnings,” it is meant to measure how high or low current prices are compared to long-term stock prices. In an August 16, 2014 *New York Times* column, Professor Shiller declared the CAPE ratio to be “hovering at a worrisome (high) level.”

Before we conclude that stocks are overdue for a take down, consider another article in the August 27, 2014 *Wall Street Journal* by Burton G. Malkiel, author of classic finance book, *A Random Walk Down Wall Street*. Professor Malkiel compares the CAPE camp’s “worrisome level” with a capital market camp viewpoint that the higher stock prices may be warranted based on today’s low interest rates. In assessing which camp is right, Professor Malkiel proposes that “both may be.” Shiller himself notes, “The CAPE was never intended to indicate exactly when to buy and to sell. The market could remain at these valuations for years.”

With various models and opinions about the models, it’s no wonder many investors are confused. While the lack of concrete ideas may be distressing to some, we are glad that scholars continue to study market pricing theory. Through the years, their findings have shaped the principles that guide our investment strategy to this day. However, abandoning a carefully constructed investment portfolio based on the clash of the academic titans as they debate real-time market pricing is like purchasing a new home and forsaking the former residence every time a new, supposedly improved flooring material is released. It’s stressful, expensive and unlikely to make us any happier (or financially better off) in the long run.

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Instead, whether stocks are over-priced or fairly valued in the near term, we remain confident in the solid structure Monument Group Wealth has built in the form of a low-cost, globally diversified portfolio. While we are in a steady state of portfolio maintenance (via rebalancing, investment due diligence, considering the portfolio objectives for each individual client), we do not see that “remodeling” portfolios based on various valuation models is appropriate. We continue to believe the philosophy expressed in the 2012 quarterly client letter, “Rather than arguing if markets are priced ‘right’ today, we prefer to understand if a particular mix of investments is ‘right’ for each client today and tomorrow. If, during our ongoing due diligence and development of investment strategies, we uncover modeling that may be beneficial to client portfolios, we will share our findings.”

Investment Insights for 2015 and Beyond

Above we mention that scholars have helped to shape the principles that guide our investment strategy. In 2015, we will be rolling out an investment insights series to help our clients understand the roots of these principles and Monument’s investment philosophy. In the coming weeks, we expect to send the first in a series of investment insights emails that will explore essential concepts about our investment style.

As always, we welcome your suggestions and feedback. We value your trust and confidence. We are also pleased to tell you that introductions to new clients from current Monument clients and other professionals have been greatly appreciated. Thank you.

Sincerely,



Byron E. Woodman, Jr.
President



Lee C. McGowan, CFP®
Managing Director

*Wealth managers do not pay a fee to be considered or placed on the final list of Five Star Managers. The Five Star award is not indicative of the wealth manager’s future performance. For more information on the Five Star award and the research/selection methodology, please go to www.fivestarpromotional.com.