WOODSTOCK

QUARTERLY NEWSLETTER

Fall, 2017

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What to Make of the Market

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Tax Update

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Agawam Trust and Management

As we contemplate a possibly overvalued stock market what are some of our managers' reactions:

- "The political reality is negative, so investors will be disappointed."
- "Sentiment is still bearish so good for stocks."
- "This environment demands defensive positions."
- "Risk as measured on an after-tax basis, means it's not worth trying to time an exit before the peak."

We are where we are politically, as we've said before, in the ninth year of an experiment in electing inexperienced presidents. The stock market is climbing a wall of worry. Diversification of holdings is important for protection. Don't try to time the market. These have been elements of Woodstock's investment philosophy for decades. These ideas are phrased in different ways at different times but have consistently been part of Woodstock's approach. Recently Harvard University reported disappointing results for its endowment for the year ending June 30, 2017. Harvard is in a 5-year transformation of its investment management structure from a "silo approach" to a "generalist investment model" and was six months into it at June 30th. The structural changes related to doing away with teams of internal hedge fund or specific asset class managers ("silos") and either drop the asset class or begin using external, specialist managers. In January 2017 an author lauded Harvard's endowment for doing two things. The one thing that is entirely within its control: controlling cost (with its internal structure) and the other, taking advantage of its long term investing horizon (investing in illiquid assets). Moving from a 5-year view of performance to a 20-year view showed that Harvard had done a good job taking advantage of its strengths. As the quotes from Ted Felton's 2008 article reprinted on the back page show, Woodstock has and will keep focused on its strengths: theme investing with high quality US stocks and the mathematics of compounding over the long term. We believe we keep costs low and take advantage of a long term outlook.

A 2016 report of US household net worth by the Federal Reserve for June 30, 2016 shows gains from a rising stock market and rising home values. A comment on the report estimates that 90% of "directly held stocks" ($15T) are owned by the top 10% of households while 60% of the wealth in principal residences ($13T) is held outside the top 10%. Two other major components of US household net worth were cash deposits at banks ($11T) and "indirectly held stocks" - retirement accounts ($9T). These four components make up $48 trillion out of the total of $89 trillion net worth which is the sum of all assets, such as homes, stocks, bonds, vehicles and cash minus all debts, such as mortgages, credit cards, student loans and auto loans. "Net worth rises to a record" was the headline.

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William H. Darling, Chairman & President
Adrian G. Davies, Executive Vice President