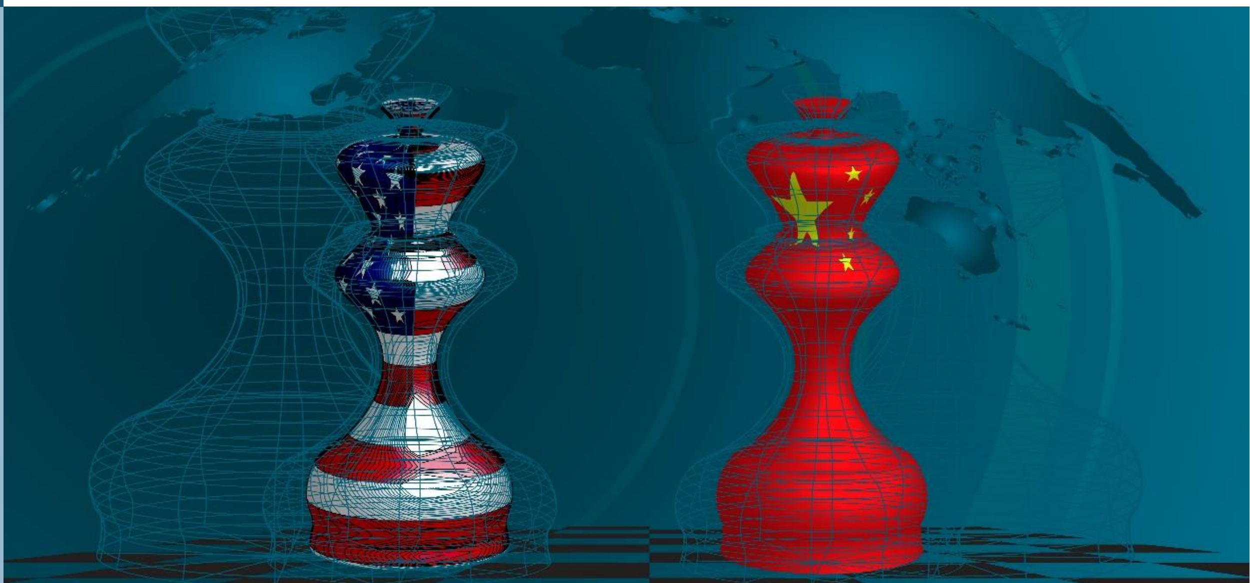
PUTTING GLOBAL GEOPOLITICAL RISKS IN THE RIGHT CONTEXT

By James Duronio, Executive | VP, Investment Solutions Group at LAMCO Advisory Services



It's been quite a while since the world's major economies have dealt with the type of direct tension that they're confronting today. From a simmering trade war between the U.S. and China to the U.K.'s divorce from the European Union, these issues not only effect the economic realm but spill over into all aspects of people's daily lives. These global reaching issues have introduced a great deal of uncertainty onto the geopolitical landscape, and they share responsibility for much of the heightened volatility in financial markets over the last year.

The uncertainty-related spike in market turbulence may prompt investors to ask whether their long-term investment strategies need to be re-engineered. If the investor's portfolio is properly structured based on their risk and return objectives, the answer should be a resounding *"NO."* Although we'll admit it's a reasonable to experience heightened concerns in the current environment and that it raises a few important points of clarification.

Risk Tolerance | There's a big difference between wondering how all of these geopolitical factors impact your investment strategy and truly being worried enough to consider dialing back your risk exposures.

We wish it weren't true, but the fact is that investor risk tolerance tends to track market conditions with a slight lag. Last year, periods of rallying stocks drove investors to tolerate more risk, and sharp selloffs led to abrupt turnarounds during which they suddenly became intolerant to risk, *according to Financial Planning*.

The market-like path of risk tolerance suggests that investors either don't appropriately apply probabilities when making investment decisions, or they're taking their cues from their emotions. If risk tolerance is fluid—which we'll consider for argument's sake—then investors should be less tolerant of risk after run-ups in stock prices when the probability of decline is high, and much more tolerant of risk after sharp selloffs when there's a low chance that markets will continue to tumble even further.

Truthfully, we don't think an investor's risk tolerance should move around that much. Risk tolerance is best measured as a factor in achieving long-term goals. How much risk *must an investor tolerate* for a high likelihood that their assets will accomplish their goals over a given timeframe?

The Flexibility to Act | Rather than looking at the selloffs over the last year or so with concern, astute investors are uniquely suited to act on them as opportunities.

Market selloffs can produce better deals for investors when they're accompanied by stable expectations for corporate earnings. Put simply, if companies are still expected to make the same profits, but their stock prices decline, then investors can buy those profits for less money.

This is what market-watchers are talking about when they say that companies have lower price-to-earnings ratios after a selloff, and it closely describes what has happened around much of the world lately. This can lead to attractive valuations left behind after a selloff for investment managers to exploit.

Unpleasant open-ended scenarios are a natural feature of the geopolitical landscape. It's true, they don't often pit the world's largest economies against one another.

We can also appreciate that selloffs trigger concerns. But they can also be viewed as opportunities to gain exposure at less-expensive valuations through tactical shifts in the portfolio, as long as it fits with investors' risk and return objectives.

For more information, please call **407.585.1160**