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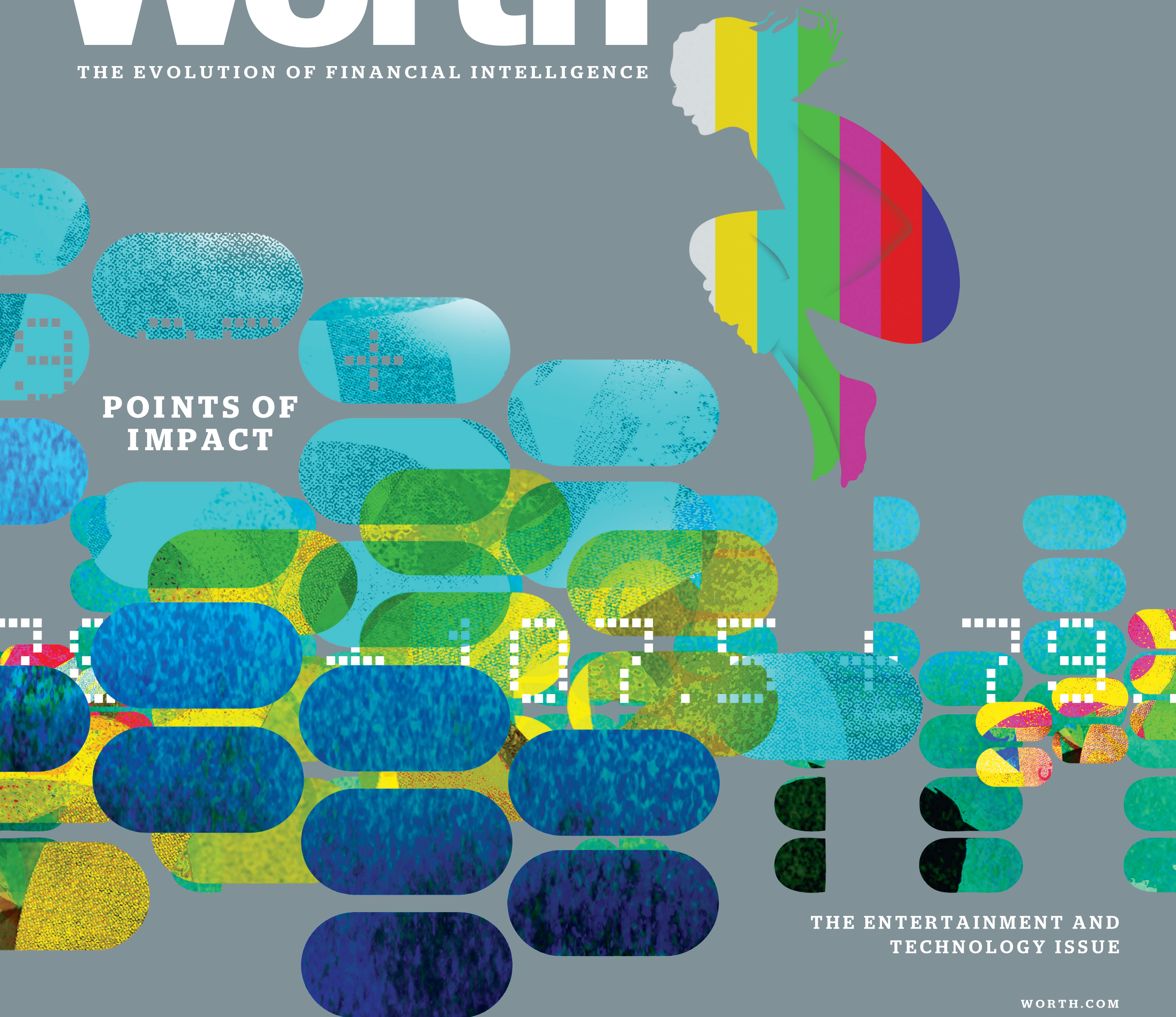

POINTS OF IMPACT

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Signature Estate & Investment Advisors LLC
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“We’ve had the ‘tech,’ ‘housing,’ and ‘credit’ bubbles. What might be the next bubble, and how do we prepare?”

By Gary K. Liska

My 2-year-old son is fascinated by bubbles; last weekend, I spent hours outside, watching him chase them with pure joy. Yet when each bubble popped, that joy quickly turned to disappointment.

The same is true for economic bubbles: joyful on the way up and painful when they end. Which leads me to wonder, where will the next economic bubble be, and when will it pop?

Market bubbles are often identified only in retrospect after the market has tumbled. It’s important to understand what these bubbles have in common: Typically, investors disregard rational assumptions, displaying what we call “irrational exuberance.” Such overconfident, even delusional, participants (“this time is different”) are often signs of an impending bubble. We have seen such behaviors during the recent tech and housing bubbles.

What is the next bubble, and why? The bubble that worries us most right now is the long bond/sovereign debt bubble. Money has poured into this asset class over the last 30 years, even as the falling interest rate cycle has continued with the Fed and QE following the Great Recession in 2008. We saw a glimpse of the “government bond bubble” popping last year, when rates on the 10-year Treasury rose from 1.62 percent to 3.04 percent (an 88 percent move) over just six months; and the long-bond class lost 20 percent in value. Today’s bonds, it’s important to note, have very little intrinsic value left in them (i.e., significant risk and very little reward).

Earlier this year, Janet Yellen reiterated the Fed’s accommodative stance, which helped stabilize the bond market and push rates down. And, recently, the European Central Bank instituted a negative interest rate stance. Central banks globally are lowering rates to help stimulate their domestic economies. With new worries about an uptick in inflation, some Fed officials suggest they may raise interest rates as soon as the first quarter of 2015, slightly earlier than investors have been expecting. But when will rates really rise? It could happen sooner than many investors are pricing in now; and the pace of increases may be rapid.

With the S&P reaching all-time highs, stock valuations are high (currently 16.0 PE vs. a 35-year average of 13.2) but not yet at alarming levels. The bull market has lasted 63 months, versus the average of 58 months for the 11 bull markets since 1949. Stocks are still offering an earnings yield of 5.2 percent, while 10-year Treasuries are paying out a measly 2.5 percent. As the Fed continues to taper QE, its exit strategy and forward language are very important, and the markets are paying attention. Central banks are trying to navigate a deflating of the bond bubble, not a pop.

What to do now? Alternative income strategies you should consider include negative duration strategies, STEP bonds, floating rate and convertible securities. These can help hedge/reduce the interest-rate risk. Short-duration high yield and many oversold high-quality municipals are still very attractive on a duration and after tax basis.

U.S. large cap equities still remain attractive despite relatively high valuations. Consider cyclical sectors with global reach and divided-growth strategies. Finally, don’t ignore value opportunities globally, as U.S. valuations are extended and other developed and emerging economies are recovering from their slow-growth periods. Loose ECB monetary policy should continue to help the European rally.

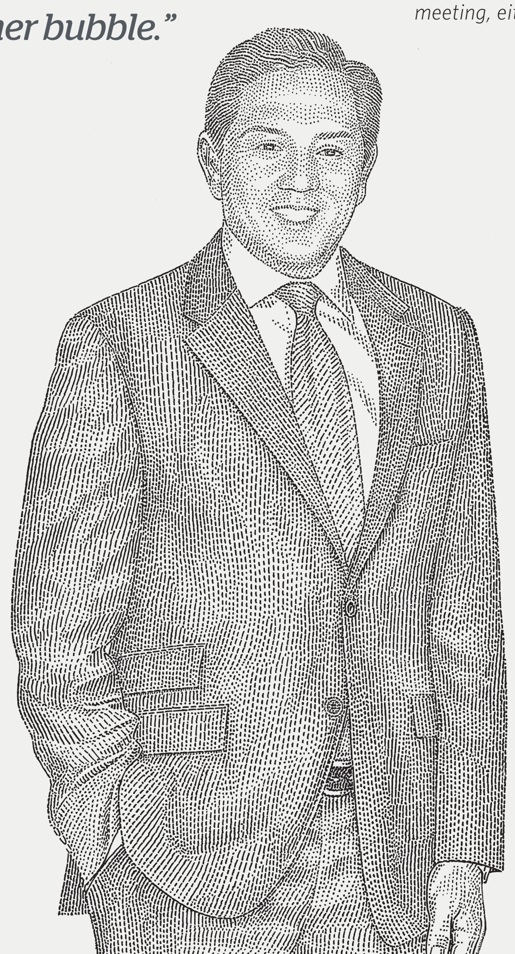
In sum, speculation will always exist and asset bubbles come and go. History will repeat itself and human behavior will create another bubble. This time is *not* different. The key to avoiding the bubble bursting is to anticipate it, plan accordingly and be proactive with your investment strategy. As advisors, it is our fiduciary responsibility to advise our clients to construct disciplined investment policies and strategically plan ahead. Fight the inner 2-year-old in you and don’t chase the bubble until it pops.

"History will repeat itself and human behavior will create yet another bubble."

—Gary K. Liska

How to reach Gary K. Liska

Please call my office at 310.712.2331 *to schedule a meeting, either over the telephone or face to face.*



MY FAVORITE COACH…

John Wooden

I NEVER LEAVE HOME WITHOUT…

Kissing my wife and son

MY GOALS FOR THIS YEAR INCLUDE…

Improving my culinary skills

About Gary K. Liska

Gary K. Liska has been in the financial services industry since 1994 and is a founding partner of SEIA. Less than 17 years after its inception, SEIA reached the milestone of $4 billion in assets under management. Mr. Liska is a certified financial planner and holds a master of science degree in financial services and is a core member of SEIA's investment committee. He specializes in comprehensive wealth management strategies for individuals, as well as corporations. Mr. Liska has completed the AIF (Accredited Investment Fiduciary) designation.

Assets Under Management
$350 million (Liska)
$4.2 billion (firm, as of 6/30/14)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$500,000 (investment services)
$5 million (Private Client Group)

Largest Client Net Worth
Confidential

Financial Services Experience 20 years

Compensation Method
Asset-based, fixed and hourly fees

Primary Custodians for Investor Assets
Charles Schwab & Co. and Fidelity Investments

Professional Services Provided
Investment advisory and money management services, private client wealth management, corporate retirement planning, estate planning, insurance planning and philanthropic planning

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ILLUSTRATION BY KEVIN SPROULS

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