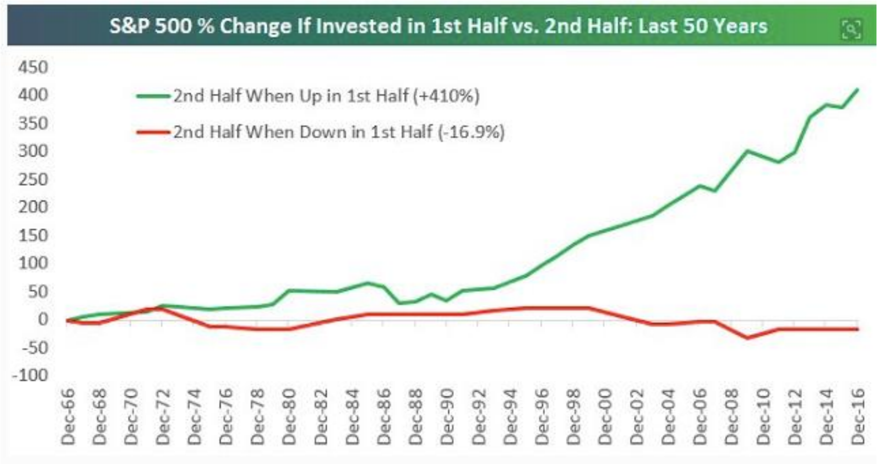
Stick With What's Trendy!

"In investing, what is comfortable is rarely profitable." ***–Rob Arnott***

The first half of the year delivered superior returns for the US Stock Market as measured by the S&P 500 (+9.3), but as we entered into the doldrums of Summer, that torrid pace slowed down considerably. June was a relatively flat month and the first few weeks of July have looked similar. While a strong first half typically follows with a strong second half (See Chart), a summer pullback or continued consolidation would be healthy. Since 1980, the average intra year decline has been about 14%. So far this year, the max drawdown is around 3%. Since 1928, you'll find only one other year where that max drawdown was less than 3%. Therefore, probabilities are in favor of a steeper decline happening at some point this year. That said, as we look to the chart above once again, the trend is our friend and as we've learned throughout the years, you don't fight it. Additionally, despite some conflicting news, market fundamentals continue to point to higher returns for the foreseeable future. So for now, we see no need to sell into any sort of decline and will instead look to add to our equity exposure should we get one.



International stocks continued with their strong relative performance as well and our increased allocation has served us well so far this year. Developed countries, as measured by the MSCI EAFE have returned 13.8% year to date and Emerging Nations, as measured by the MSCI EM have returned 18.4%. We continue to favor the growth prospects of intenational companies over the US and are looking to add to those allocations opportunistically.

Sectors in Focus

Two sectors of the market that we have significant allocations to are Financials and Technology: through individual stocks and sector specific ETFs. In a time period where economic development will most likely be sluggish, we feel that these two sectors have the opportunity to provide growth while most other sectors may struggle.

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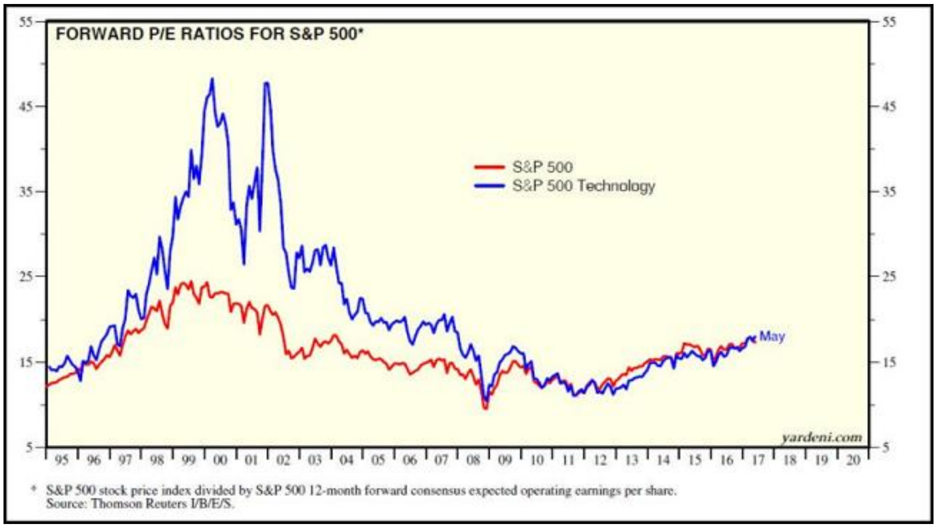
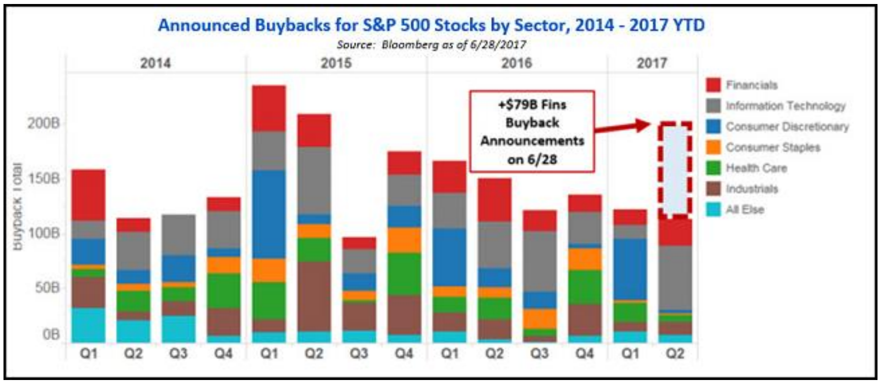
The technology sector has been under a microscope lately due to the incredible performance of it's most popular stocks: FANG (Facebook, Amazon, Netflix, and Google). Despite the stratospheric performance of these names, the sector as a whole is still reasonably priced compared to the overall market. This perception that the sector is incredibly overvalued is not reality. You'll see in the graph below that since 2008, it's valuation, as measured by the 12 month Forward P/E, has remained in line with the rest of the market. It's not often that you are able to buy a growth sector at a valuation that is in line with the overall market.

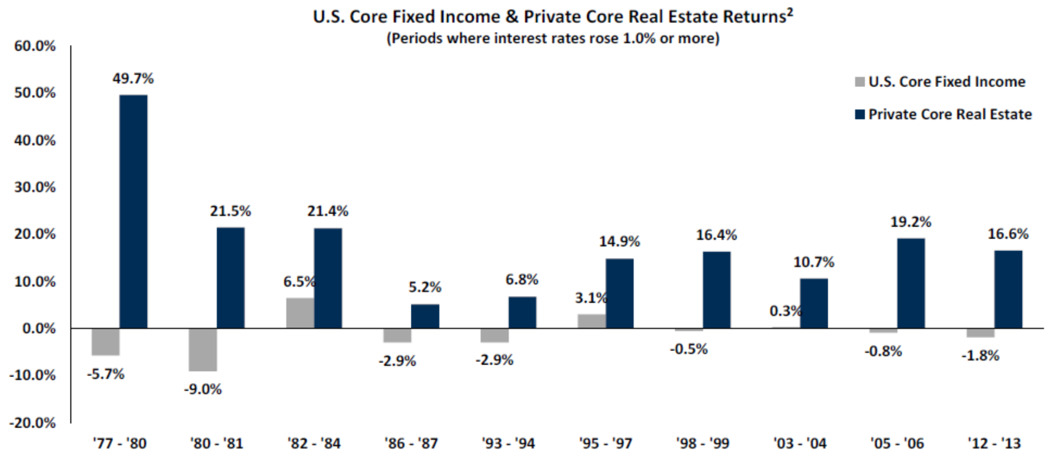


Financials have struggled since the onset of the Global Financial Crisis, and unlike the rest of the market, the sector is still far from reaching it's previous high made in 2007. There has been little to think that this would change until some recent catalysts: rise in interest rates, Trump election, potential regulatory roll backs, recent stress test results and subsequent approval of capital plans. There is tremendous pent up growth in the financial sector that needed a catalyst(s) to kick start it, allowing the sector to deliver superior returns. After the recent stress test results, we've already seen a number of banks announce dividend increases and massive stock buy-back programs. In total, the financial sectors buy-back announcements in Q2 was almost as much as all of the other sectors combined (See chart below):



Private Real Estate

We have always been big believers in Real Estate for a number of reasons: high income, diversification, inflation protection, etc… Just like other asset classes around the world, Real Estate has been coming under fire for it's high valuation. Money has been flocking to the asset class in search of yield and perceived safety. While we would agree that valuations are getting stretched, we believe that that it's mostly contained to specific asset classes and geographic locations. Additionally, the sector looks attractive compared to bonds (cap rates vs 10 yr treasuries long term averages) and stocks (cap rates vs S&P 500 earnings yield). Cap rates are defined as net operating income of a property divided by its current value. Macro drivers of the asset class also favor overweighting and as interest rates start to rise and bonds lose value, Private Real Estate serves as a potential replacement for part of the allocation served to provide income and stability. You'll see in the chart below how both asset classes have performed during previous rising rate environments:



Canal Update

At Canal Capital we are constantly looking for ways to better serve our clients. Over the past few years, providing business advisory services for them has become a greater part of our business. This increased volume of work has led us to add to our current team. Aaron Kroll, JD, MBA joined Canal earlier this month as Director of Business Advisory Services. Aaron started his career at an investment bank in Cleveland, OH working on deals in the real estate and oil/gas industries. He then transitioned to Richmond, VA to a private equity real estate investment group. From there he started his own business consulting company that specialized in assiting companies with strategy development, marketing, capital raising, and mergers and acquisitions. Through this company, he helped launch a hedge fund, successfully completed $10+

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million in commercial real estate deals, and successfully sold several businesses to strategic partners. In addition to running the business advisory services, Aaron will assist with the firm's real estate funds. Aaron earned a Juris Doctor from The University of Akron in addition to an MBA, summa cum laude, in Finance. He also received an executive leadership certificate from Cornell University. Aaron received a BS, cum laude, in Business Management from Virginia Tech.

As always, please don't hesitate to contact us with any questions or to discuss changes in your overall risk tolerance.

DISCLOSURE: Past performance is no guarantee of future results. Investments are subject to risk, including the loss of principal. Because investment return and principal value fluctuate, shares may be worth more or less than original value. These investments may not be suitable for all investors, and there is no guarantee that any investment objective will be obtained.

All indices are unmanaged and investors cannot invest directly in an index. Unlike investments, indices do not incur management fees, charges or expenses.

Investing in alternative investments may not be suitable for all investors and involves special risks, such as risk associated with leveraging the investment, potential adverse market forces, regulatory changes, and potential illiquidity. The purchase of bonds is subject to availability and market conditions. There is an inverse relationship between the price of bonds and the yield: when price goes up, yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity. Some bonds have call features that may affect income. Treasury bonds are guaranteed by the U.S. government as to the timely payment of principal and interest, and, if held to maturity, they offer a fixed rate of return and fixed principal value. U.S. Treasury bonds do not eliminate market risk.

The precious metals, rare coin and rare currency markets are speculative, unregulated and volatile and prices for these items may rise or fall over time. The commodities industries can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

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