INTEGRE
ASSET MANAGEMENT

August 2, 2017

Dear Friends,

In the second quarter, our All-Cap, Mid-Cap, and Small-Cap composites all increased, as the markets moved higher with little volatility while long-term interest rates remained low. In this bullish environment, buying out-of-favor growth companies has been a good way to benefit from the market while still reducing valuation risk in the event of a decline.

At this point in the cycle, after eight and a half years of positive returns for the S&P 500, worrying about downside protection no longer seems popular. But I have been doing this long enough to know that when considering an investment, you always have to look at how much capital you can lose as well as how much you can make.

Recently, a client asked how much I expect the market to go up through the end of the year. Unfortunately, in my experience, six months is too short a time period for which to make a reasonably accurate forecast given that there are so many unknowns. That said, I do see several reasons for optimism. Stocks remain cheap relative to bonds. Corporate tax reform could boost earnings. And, for the first time in recent memory, most major international economies are growing simultaneously. At the same time however, there are just as many reasons for caution. There is the increase in North Korean military capabilities, the relatively high valuations for the S&P 500 as compared with its recent history, and our Federal Reserve's intention to shrink its balance sheet come fall.

Given this balanced outlook, it makes sense to position our portfolios so that they can perform well on a relative basis in a variety of scenarios. As such, in the second quarter, we worked to reduce risk in the All-Cap and Mid-Cap portfolios. We increased the average market-cap of our holdings, increased our investments in industries that are less impacted by the economy, like payment processors and specialty chemicals, and finally, reduced our exposure to the historically volatile semiconductor industry.

Given that the components of our Small-Cap Dividend portfolio have a historic beta (a measure of volatility) of .81 relative to that of the Russell 2000 index, which is its benchmark, there was no need to reduce risk in this portfolio. Instead we spent the quarter combing through the universe of dividend-paying small-cap stocks, and small-cap special situations, looking for the best growing companies trading at reasonable valuations. Recent new purchases ranged from a high-quality Texas bank to a New England robotics company. We also bought shares in one of the largest coal producers in the United States after it came out of the bankruptcy restructuring process. As a result of the restructuring, the company now has low-cost assets and no debt, net of the cash on its balance sheet, a special situation indeed.

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While we work doggedly to preserve your capital in volatile markets, it is calm markets, like that of this second quarter, which give us the opportunity to grow your capital, and for that we are always grateful.

With all best wishes for a wonderful rest of summer,

Manny Weintraub, CFA
Founder and Principal

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