TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

New Homes on the Rise

America is facing a single-family housing shortage. There were 1.67 million existing homes on the market this March. That is 7.2% less than 2017, and the lowest for the month of March since 1999! According to national surveys of real estate professionals, the inventory crunch is a much bigger headwind for prospective buyers than the recent uptick in interest rates.

This is great news for new home builders, which have been dealing with severely decreased demand going back to 2009. Nine years into the recovery, housing starts are still far below the levels of the early & mid 2000's. It's also exceptional timing for HVAC & other suppliers, that have the double tailwind of new-demand coming online, coupled with the upcoming replacement cycle from the housing boom of the mid 2000's.

The bad news is that prices are headed higher for new builds. Lumber prices have risen dramatically over the past 12 months, from roughly $330 per unit to $610. Lumber is typically the single largest input cost for homebuilders, so they are quick to pass as much of that cost as possible along to the consumer.

Source: National Association of REALTORS®

A Closer Look at Corporate Earnings

The first quarter earnings reports have nearly concluded, and the results have been stellar. Across the board, large US companies are showing meaningful top-line revenue growth. There has been plenty of talk about how much net profits have expanded following the passage of the Tax Act, but the real story is top-line expansion, which has been anemic through much of the current economic recovery.

S&P 500 companies that have reported results thus far grew revenues an average of 8.4% year-over-year in Q1. The most notable strength was in Technology (+15.7%), Real Estate (+13.5%), Materials (+13.3%), Energy (+12.1%), and Industrials (+10.6%). Even the typically slow & steady areas of Telecom, Utilities & Consumer Staples registered growth of +3.0%, +3.2%, & +5.1% respectively.

Why hasn't the market responded in a more positive manner to this news? That's a reasonable question to ask. While the answer is never 100% clear, the stock market attempts to be forward-looking. Investors bid up the market in 2017 on the prospect of improving earnings & a strengthening economy. Those prospects became reality in Q1. What's unclear now is whether the economy will continue to gain steam, or will there be weaker growth as a result of rising interest rates, stronger inflation, and/or over-extended consumers. It's likely that we'll see both of those scenarios play out over the next few years, but we believe that the economy has more room to run in the near-term.

Source: Thomson Reuters S&P 500 Q1 2018 Earnings Dashboard

About Our Upcoming Move

In early June, Tilia Fiduciary Partners will officially relocate to 32 North Front Street in Downtown Wilmington. While we've always had a crush on our Historic Downtown, there are some larger reasons behind the move.

Back in January of 2013, Tilia purchased our current office condo in Lumina Station out of foreclosure. The partners dug into their savings to pay cash for the unit at the time. While there were more aggressive & potentially more lucrative ways to structure such a deal, paying cash kept the business as a debt-free operation. Five years later, values have recovered dramatically in the Eastwood corridor. This gave us a good opportunity to leverage our property investment, and coupled with a recently completed 1031 exchange & low interest rates, secure a notable, stand-alone headquarters with plenty of room to grow into the future. Ridding ourselves of the costly quarterly dues of Lumina Station also means that our occupancy costs in the new building will be comparable to our current location.

The first impression that you might get when walking into the new space is - this is nice… maybe too nice. That would be a fair observation at this point. Like the stock market, we try to be forward-looking when it comes to our business. Many of our clients have entrusted us with assets that will likely last for multiple generations. As a result, it is our intent to build a multi-generational business, that will be here to serve & advise those future generations. This new building will help us attract & retain the best talent for years to come. More importantly, the new space provides a comfortable, airy & private setting for our clients to visit and discuss their financial future.

Location also played a large role in the move. The staggering influx of people into Brunswick County in recent years has resulted in many of Tilia's clients residing across the river. Front Street gives us a central location within the Cape Fear Region. It also gives us a chance to be a partner in the rehabilitation & new growth of Wilmington's Historic Downtown.

We share this background with you, because as clients of Tilia, we consider you partners in our success. As financial advisors, we think it's also helpful to be transparent with the financial side of things. It's important for our clients to know that we are practicing the same principles that guide the advice we give you.

Thank you all for your continued trust & support. Tilia cannot wait to host you in our new office this summer!

Investment Risk Tolerance

One of the first steps in tailoring an investment portfolio to an investor involves gauging his/her investment risk tolerance. This willingness to withstand loss of investment value is classified on a scale from "conservative" to "aggressive". But what exactly is a "conservative" versus "aggressive" investor? These terms can be confusing as they are more commonly used to describe someone's personality. As such, an investor with an aggressive personality may require a conservative portfolio, and vice versa!

Conservative investors typically can not tolerate large downturns in the value of their investments. This may be due to their investment timeline (ex: retirement planned to begin in three years) and/or their personal comfort level with the volatility of financial markets. Investors in this category tend to favor relatively lower-risk investments ranging from ultra-conservative certificates of deposit (CDs) and U.S. Treasury Bonds to investment-grade corporate bonds and dividend-paying stocks. Aggressive investors, on the other hand, accept more variation in their portfolio value in exchange for higher potential returns. Investors in this category favor investments ranging from high-yield ("junk") corporate bonds to domestic and international growth stocks. When properly diversified across multiple holdings, aggressive investments are the primary means of delivering long-term returns. (*Continued on the left)*

Investment Risk Tolerance (Continued)

We assist clients in assessing their own risk tolerance primarily based on time remaining to their investment goals. Short term goals which value capital preservation, such as an emergency fund or an upcoming down payment on a new home, should be primarily funded with conservative investments. Longer term goals which require asset growth, such as retirement/legacy planning, can be funded through more aggressive investments. This concept can be illustrated by comparing the historical returns of U.S. Treasury bills, a conservative investment, versus the U.S. stock market. Looking back over nearly 100 years of data, the U.S. stock market's greatest 1-year return was +166.9% (1933), which followed the worst return of -69.1% in 1932. Everyone would enjoy doubling their money in a year, but how many could stomach losing (on paper) more than half? In comparison, 1 year U.S. Treasury bill annual returns have ranged from +17.3% (1981) to -0.9% (1941). Currently, the 1 year U.S. Treasury bill yields 2.26%, slightly more than the 2.1% inflation rate. The tradeoff for less risk of loss in a Treasury bill portfolio is slower average growth.

Developing an investment portfolio tailored to your risk tolerance involves many considerations, time horizon being one of them. This is why at Tilia, we customize client portfolios with a diverse mixture of corporate bonds, individual U.S. companies drawn from different segments of the economy and international stock index funds. The percentage of "aggressive" stocks versus "conservative" bonds is referred to as your investment allocation, and is adjusted ultimately based on your risk tolerance. As your investment goals change over time, so too will our recommendations to get you there successfully.

Sources: Bureau of Labor Statistics; Based on data from *TheBigPictureApp*©2018 Center for Research in Security Prices (CRSP), The University of Chicago Booth School of Business.