WOLVERINE INVESTMENTS
YIELD-ENHANCED STRATEGIES

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"Whenever people agree with me, I always feel I must be wrong." – Oscar Wilde

For those of us in the investment management profession, the year-end holiday season is accompanied by special ritual. I am not referring to the custom of gifting, eating, imbibing and cavorting with friends and loved ones which we universally look forward to. While these are indeed joyous and especially heart-warming, there is another mundane yet fascinating endeavor which is obligatory in our line of work. I'm referring to the reading and listening to the various forward-looking investment reports, forecasts, and prognostications that global financial institutions, economic experts and media pundits tend to inundate us with this time of year.

In recent weeks, I have surveyed a wide variety of "2018 Investment Outlook" strategy reports and the like. Most are pretty optimistic about the current economic backdrop (and for good reason), and what it all means for the future performance of financial assets – stocks, bonds, etc. As all investors can attest, past performance does not guarantee future performance. The common thread among all the reports I've heard is that for the first time in several years, we are experiencing "synchronized global growth." We cannot disagree with this premise. Experts can agree that inflation continues to remain fairly muted and predictable, and hence monetary policy (e.g., interest rates) will tighten very gradually in the coming year. In short, most reports see a continuation of the 2017 market environment well into the foreseeable future.

These strategic reports also typically address certain risks to the aforementioned uniform thesis, and we readily acknowledge there are no shortages of threats on the immediate horizon. For example, a possible weakening to China's economic growth rate is frequently cited as a major risk, just as it has been for the last several years. Geopolitical threats, such as unknown Brexit ramifications, North Korea's blatant and dangerous provocations, climate change, and omnipresent international terrorism – all frequently cited. Added to the mix for 2018 is one new threat frequently mentioned as another increased risk factor – the re-acceleration of inflation.

What I found quite astonishing about this annual research exercise was that it felt like I was reading the same report over and over again…the 2018 outlooks and forecasts issued by multiple financial institutions all sound eerily similar and failed to shine a light on any novel or substantive ideas. This observation strangely creates an additional risk for the financial markets as we head into a new year – ***the risk of group-think, or the acceptance of a too-narrow consensus view***.

Financial market prices reflect investors' collective forward-looking views, expectations, and attitudes. If everyone's thinking and assumptions are relatively the same, then current markets reflect a single view about the future. Purely from a contrarian point of view, which historically is often a better predictor of the future, this could suggest a worrisome development. We are not predicting disaster in 2018, but what happens if future events should seriously challenge the status quo? When consensus breaks down, the risk of a significant market swing (to the upside or downside) is often much greater than if no strong consensus exists. Again, to reiterate the thought-provoking words of Oscar Wilde, the great 19th Century poet and writer who exhibited a clear view about consensus thinking, *"Whenever people agree with me I always feel I must be wrong."* We will certainly remain vigilant and mindful should volatility increase in any meaningful way. As such, we believe our strategies will offer a flexible and superior alternative to traditional equity and fixed income investing. We are well-positioned to withstand any anticipated gyrations to the overall financial markets in 2018 and beyond.

In closing, we are sincerely thankful to our clients, friends and colleagues who make our ongoing success possible. As always, we welcome any input and collaboration with you, especially if there have been any significant changes to your risk tolerance level, investment objectives, return expectations or investing criteria to better reflect what you would like to accomplish in your investment portfolio.

Sincerely yours,

John M. Babyak
President & Chief Investment Officer