WOLVERINE INVESTMENTS
YIELD-ENHANCED STRATEGIES

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Active investing, weathering inevitable market corrections, and respecting seasonal trading patterns

Many experienced investors will recall the old Wall Street trading saw, "sell on Rosh Hashanah, buy on Yom Kippur." News flash for the unacquainted goyim among us: the Jewish New Year of Rosh Hashanah fell on Monday, September 14th, while the annual Day of Atonement occurred last Wednesday, September 23rd. Old-timers will tell you that observant folks unburden themselves from market exposure during the High Holy Days because, "you wished to be free of the distraction of worldly goods during a period of reflection and selfappraisal." So, is there any truth or merit in observing traditional sentiment gauges or analyzing patterns of market behavior?

Whatever the truth, there's no denying that there may be good reasons to be aware of seasonal indicators and other technical trading patterns, as sound logic can be used to explain them. At best, these old saws, sayings, clichés and myths contain an element of truth but should not be considered as gospel in the practice of prudent money management. I would submit that the Jewish High Holy Days historically coincide with market weakness. With over 100 years worth of stock market statistics to rely on, it's been pretty well established that September is, on average, the worst performing month on the calendar. One analyst we know ascertained the 38th week of the year is by far the cruelest in terms of average returns since 1950. So while we do not advocate pure market timing or the practice of indiscriminant trading, we do adhere to the process of "active" versus "passive" (or reactive) investment management.

Beginning in the second half of 2014, and continuing on into the first half of 2015, we began observing an unfolding technical trading pattern giving us pause, if not signaling an outright warning. Simply stated, both the major stock and bond market averages had leveled off and in fact failed to establish higher valuations, which is what one looks for in positive trending markets. There are obviously many fundamental reasons why such a pause would be justly warranted at this juncture. Last November, the Federal Reserve Bank finally ended its huge money-printing operation, known as quantitative easing (or “QE”). Considering the rampant speculation on exactly when the Fed would initiate its first hike in short-term interest rates since June 2006, a market correction was arguably long overdue. Adding to all the present uncertainty, investors are assessing an earnings recession in the U.S.; continued economic weakness in Europe (exacerbated by the influx of refuges from the Middle East); worries over the extent of slowing growth in China; falling energy prices; and a rising U.S. dollar; not to mention the anxious mood surrounding next year’s U.S. Presidential Election.

In terms of our current asset allocation strategy, we initiated a concerted effort in the late spring and early summer to trim back riskier equity, convertible and high-yield bond positions in order to raise uninvested cash to significant levels (compared to Wolverine’s historical norms). This defensive posture, we believe, has helped us to weather the current high market volatility, and positioned us for new opportunities which we have begun to take advantage of.

As it turns out, wholesale liquidations on Rosh Hashanah would have been only marginally helpful in this corrective phrase, as we maintain the current market setback started in earnest in early August. Likewise, buying aggressively on Yom Kippur would have been pre-mature, as we contend that this correction still has at least a few more days or weeks to bear itself out. As is our style, we will proactively assess the investment landscape to continually improve our sense of the economy’s direction during next year and beyond, and we’ll make any necessary adjustments accordingly.

While our client portfolios have <u>not</u> been immune to recent market gyrations, many of our largest holdings – including Apple, Hologic, Mentor Graphics, Salesforce.Com, Costco and Facebook – have performed relatively well amid this market correction. Further, our much larger than usual cash position now provides the opportunity to swap and/or redeploy into fresh investments in the coming weeks and months as new market leadership begins to exert itself. We’ll even go out on a limb to say we anticipate higher overall asset prices by the end of the seasonally positive, year-end holiday period.

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, investing criteria, themes, etc., to better reflect what you would like to accomplish in your investment portfolio.

Sincerely yours,

John M. Babyak

President & Chief Investment Officer