The View Toward 2018

The current year has been most unusual from an investment perspective. Whether it's viewed as a Goldilocks environment or a confluence of favorable factors, stock market advances, both in the U.S. and abroad, have been well above average. Even more interesting, however, is that the fact that the gains have been almost nonstop.

In the past, with rare exception, there have been interim price pullbacks of 10% of so sometime during the year. Not so in 2017.

At the beginning of 2016, it seemed as if equity prices were falling off a cliff. Hardly had the year begun when the numbers started spiraling downward. As it turns out, that correction was little more than just one of those things, though at the time it was a bit hair-raising.

Barring some extraordinary development over the next couple of weeks, it's likely that the current year will turn out to be an outlier, when it comes to measuring market volatility.

With that said, the new year is just a couple of weeks away. Will next year bring more of what we've just experienced? That seems highly unlikely.

For one thing, courtesy of the latest 12-month gains, U.S. valuations have expanded into the upper end of the historical range. Seen against a long-term historical backdrop, the greater the gains registered now the less the potential for gains in the future. So in contrast to the 20% surge we've had since January, one would be better served to think in terms of a single-digit gain ahead.

That's if we're lucky.

Given the various geopolitical pots that are simmering around the world, it would be quite reasonable to assume that one or more will start boiling over. Though no one can forecast the magnitude of what we may be in for, it seems prudent to recognize that stuff happens, and the odds of stuff happening in the quarters ahead are not to be dismissed.

Even if the world situation stays relatively calm, investors would be well advised to move toward more reasonably valued markets. Shares in companies of developed international markets sell at valuations that are some one-third less than those in the U.S. Shares in companies of emerging markets are even less inflated.

Keep in mind the reality of emerging markets, which consist primarily of Brazil, Russia, India, and China. Those countries account for nearly half the people on the planet. So it seems a bit silly to think of them as emerging. These days, a large segment of the things we buy are made in China. That includes iPhones, which are among the most sophisticated devices ever made.

On the fixed-income side, the situation is even more challenging. With interest rates continuing to rise, there will be ongoing erosion in the prices of many fixed-income securities. How to steel against erosion? Buy funds with short maturities. The problem, however, is that short maturity holdings have minimal current yields. One option worth considering is floating rate securities, which offer better income than money market funds with an ongoing offset to rising rates. As interest rates climb, so do their yields.