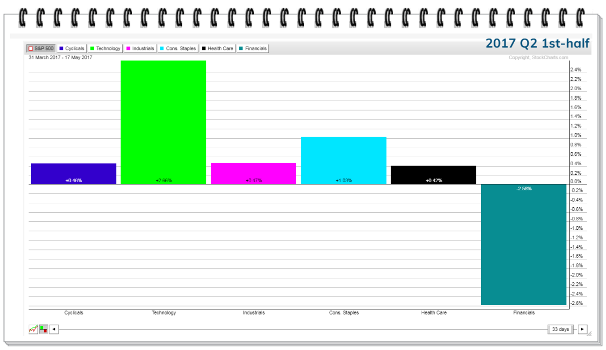
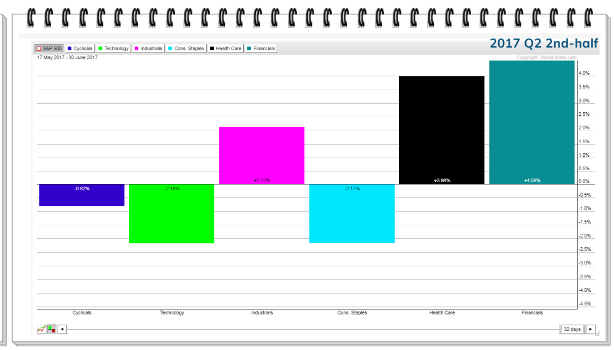
Manager's Letter 2017 Q2

Sector rotation is a normal part of market behavior. But in recent months, it has accelerated to a whipsawing pace. This has not gone unnoticed by the financial media. The online title of a recent CNBC video segment read, *"Great time for sector rotation: Expert"*. Sure, if you like jumping from one moving roller coaster onto another in mid-ride, then it's a great time.

Sector funds unbundle a benchmark such as the S&P 500 Index, grouping its companies by major industry into separate sectors. The ten Select Sector SPDR ETFs, or "spiders", are an example. For simplicity and clarity, let's focus on the six largest ETFs currently comprising about 85% of the benchmark: technology, financials, healthcare, consumer discretionary (or cyclicals), industrials and consumer staples. I've excluded utilities, materials, and energy.





Source: Stockcharts.com, as of June 30, 2017

These slides show sector performance relative to the benchmark S&P 500 Index, comparing the first and second halves of 2017-Q2. Financials swung from -2.6% in the first half-quarter, to +4.6% in the second relative to the benchmark. In contrast, technology swung from +2.7% to -2.2% relative to the benchmark, just barely outperforming it. This is an instance of sector rotation.

Industrials and healthcare consistently outperformed the benchmark. For the first half of this year, healthcare has outperformed by 7.5%, the best sector so far followed by technology at 5.8%. Financials have underperformed, second only to energy which has underperformed by 21%.

Since June 8, technology has corrected 4.4%, while the S&P has moved sideways. It's two largest constituents, AAPL and GOOG have corrected a weighted average 7.3%. Sector rotation has become more volatile recently. In the online version of this article at www.coherentfa.com/insights, we animate sector performance relative to the benchmark for the first six months of this year.

At Coherent, we closely monitor sector rotation in the markets, and sector allocations within our portfolios. If and when we tilt sectors, we do so in relatively small measures, seeking ways that are both tax and transaction fee efficient. Mismanaging sector allocations can severely affect your portfolio's risk-adjusted performance. It's never a *"great time"* to risk your investments unwisely.

Happy Fourth!
Sargon Zia, CFA
July 4, 2017