



## STAYING AHEAD OF THE CURVE

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Within our Matco investment process, there are two primary layers of investment management. The first layer is security or stock selection, which is similar to choosing the ingredients for a recipe. As we have often mentioned, our selection process is focused on nine key investment factors. Without getting into investment jargon, let's just say that these factors narrow the list of possible ingredients and point us to the proper aisles in the grocery store. From there, it is a matter of staying disciplined to that grocery list and pulling the ingredients off the shelf.

The second layer of our process could be compared to assembling ingredients together to plate the proper meal for the occasion. This is often referred to as asset allocation and determines the appropriate mix between stocks and bonds. Our Asset Mix Committee consists of a group of Matco portfolio managers dedicated to meeting regularly, discussing each ingredient and whether or not it is currently working from an investment perspective.

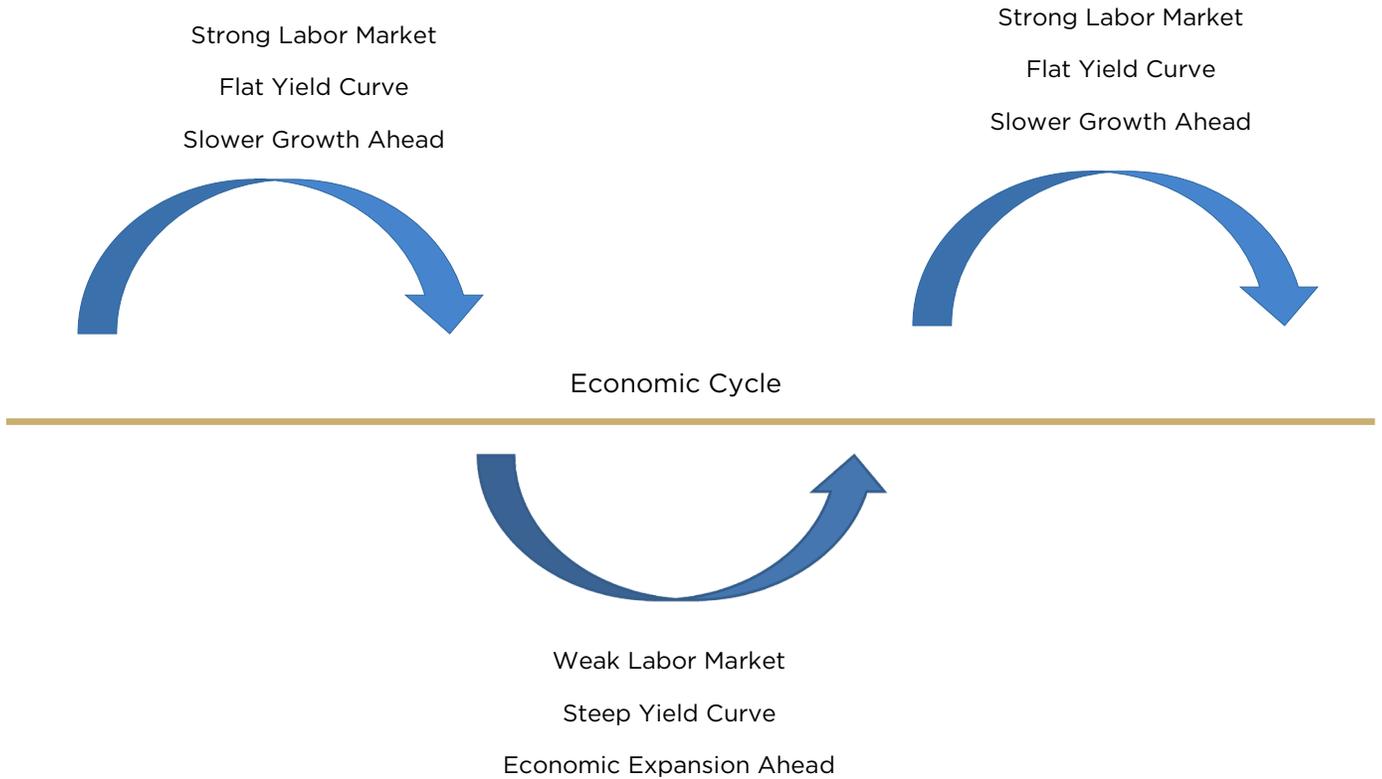
The Asset Mix Committee also continuously assesses the “big picture” from an economic standpoint. Two primary inputs into our assessment are the labor market and the yield curve. First and foremost, let's discuss the labor market. When the work force goes through a period of distress where unemployment is rising or peaking, historically this has been the most effective time to re-allocate a portion of an investor's portfolio to growth assets or stocks. Although it may seem counterintuitive, a struggling labor market is an opportunity for the economy to hit the “reset button”. While a weak labor market means many people are out of work and families are earning less, it also indicates that over the coming quarters and years, many more will be re-hired. This will gradually increase society's overall income, allowing the economy to recover. In summary, a weak labor market means better times ahead, in due course.

Another primary input is the yield curve, which is a little more complex. To simplify, let's agree that interest rates progress in cycles, and during these cycles, the yield curve is either flat or steep. When the yield curve is flat, as it was twelve months ago, this is an economic signal suggesting slower growth may lie ahead. Once the economic slow-down takes hold and a recession occurs, central banks around the world will lower their overnight interest rates. This critical action, aimed at re-engaging the economy, causes the yield curve to begin re-steepening. This is a phenomenon we are observing today, as central banks around the world have indeed cut interest rates and North American yield curves have begun to re-steepen. A steeper yield curve is an economic stimulant and often indicates that a recovery and healthier growth is ahead.

Although no single economic factor is perfect, monitoring a combination of them is how our Asset Mix Committee is able to manage the risk within our clients' investment portfolios. Studying all factors provides us with insight as to where we are in the investment cycle, allowing us to remove



psychology and subjectivity from the investment process. We can then plate the proper investment meal for the economic landscape. If you would like to discuss the economic cycle and what it means for your investment portfolio, please do not hesitate to reach out.



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## MATCO FINANCIAL INC.

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Our mission is to simplify the investment world for our clients by understanding their needs and providing exceptional investment solutions that preserve and grow capital.

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