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WEALTH MANAGEMENT

FROM THE DESK OF FOUNDER'S CORNER JOHN P. CALAMOS, SR.

Ask the Founder: A Q&A

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Founder, Chairman and Global CIO

When I began helping clients achieve their wealth management objectives in the difficult financial markets of the 1970s, I had very clear goals in mind. I wanted to provide long-term asset allocation solutions that made it easy for clients to stay invested through full market cycles—and resist the temptation to time the market.

From an investment standpoint, that meant focusing on capital preservation as well as capital appreciation. From a relationship standpoint, I let my clients know the door was always open for their questions. These same principles remain at the heart of Calamos Wealth Management today. Below, I'll answer some of the questions that have been top-of-mind with Calamos Wealth Management clients.

Q. The U.S. economy has been growing for many years. How much longer can this last?

A. The U.S. economy can continue to grow for the next year, if not longer. It's more important to focus on what is driving the expansion instead of its duration. There may be similarities between economic environments, but no two are the same. Even though this expansion has been very long, there is little reason to believe a recession in the U.S. economy is imminent.

My positive outlook reflects many factors. ***Fiscal policy is a tremendous catalyst for the economy right now.*** Deregulation and tax reform have already provided a powerful wind in the sails for U.S. economic activity, and I believe the full measure of these business-friendly policies hasn't yet been reflected in the economy. Corporate earnings are robust and business sentiment is upbeat. Employment data and consumer confidence are strong. Inflation is subdued, wage growth is contained, and financial conditions are not restrictive.

Q. What do you expect the investment environment to be like, especially with midterm elections around the corner?

A. I expect more volatility in the markets. Midterms and tariff negotiations are likely to dominate the headlines. However, it's important not to let the headlines dictate your asset allocation approach. Political uncertainty is always part of the landscape.

Short-term volatility can create opportunities for long-term investors like us. No one can predict election results, so we are analyzing the opportunities that could emerge from different outcomes. Overall, we are favoring growth-oriented companies, spanning traditional and cyclical growth areas. Our asset allocation solutions also incorporate convertible securities to provide lower-volatility participation in the stock market.

Q. What's your view of the Fed's current rate hikes?

A. ***What we are seeing now is the return of a more normal interest rate environment.*** The Federal Reserve is raising interest rates gradually from historically low levels and in response to economic growth. While we can never entirely rule out a policy mistake, I do not view the Fed's current course as a threat to economic growth and the markets. The Fed has communicated its intention to take a data-driven approach, moving more aggressively if inflation becomes a concern and less aggressively if the economy starts to slow.

Also, as I noted, U.S. fiscal policy provides strong support for continued economic growth. Additionally, in a global economy, we have to pay attention to what other central banks are doing, and right now, the policies of major countries are likely to keep long-term interest rates from spiking.

To address the risks of rising interest rates, our fixed income strategies have maintained a short duration. For some client portfolios, we also use convertibles as an alternative fixed income strategy. Convertibles have typically outperformed traditional bonds when interest rates have risen.

Q. Are U.S. stock valuations at a peak?

A. No, I don't believe they are. ***I see many opportunities in the stock market, both in the U.S. and globally.*** Year-over-year U.S. corporate earnings growth is expected to be very strong for the third quarter—around 20%. Against this backdrop, U.S. equity valuations are not at extreme levels. The forward P/E of the U.S. market is 16.9 times earnings, which I believe leaves room for more upside. As I noted, corporations have not yet reaped the full benefits of tax reform and deregulation.

Even if we were to see the stock market peak, that doesn't mean there aren't opportunities. There is a popular adage, "It's a market of stocks, not a stock market." In other words, not all stocks rise and fall in lockstep. As active managers, our investment teams focus on adding value for our clients by rigorously researching individual stocks and identifying the ones that offer the best risk/reward characteristics, even in environments that are more volatile.

Q. This year has been tough for international stock markets. Is it too risky to hold allocations to international strategies?

A. For long-term investors, I'd take the opposite stance—the greater risk is in not holding international allocations. ***Trying to time the market is never a good strategy. Investors usually end up getting whipsawed—catching the downside and missing the upside.***

Valuations of stocks outside the U.S. are also very attractive. International stock markets have experienced more pressures over recent months, due to tariff and political uncertainties. However, the fundamentals of many companies are strong. A little good news could turn the tide quickly, and you need to be positioned ahead of the turn.

Of course, how much a Calamos Wealth Management client holds in international strategies does change over time, based on our views of which opportunities are most attractive and the different potential risks on the horizon. How much you hold in any investment strategy should also reflect your personal risk tolerance and investment objectives. Our teams are looking at all of these factors on a continual basis, and actively managing your allocation.

Our investment teams use a number of strategies to manage the potential risks of international markets. They favor countries that are moving in the right direction in terms of economic freedoms, for example. They rigorously research companies, and travel around the world to get firsthand perspective on the growth trends shaping the global economy.

Q. What is the best asset allocation strategy for this environment?

A. Asset allocation always has to align with a client's unique situation. What are your goals? How much downside can you tolerate over the short-term? Too often—and especially in good stock markets—people forget about the amount of risk they can comfortably withstand.

The Calamos Wealth Management asset allocation approach is philosophically rooted in risk management and long-term results. ***In any environment, the best strategy is to stay diversified.*** Your asset allocation should include a variety of actively managed investment strategies—growth equity, lower-volatility equity, fixed income and alternative, for example. The amounts allocated to different asset classes depend on your specific needs.

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