PLANNING POINTS…

June 2019

Index	2Q 2019	YTD	Avg. Annual Return Since 12/31/01
S&P 500	**4.3%**	**18.5%**	**7.7%**
Dow Jones Industrial Average	**3.2%**	**15.4%**	**8.4%**
NASDAQ	**3.6%**	**20.7%**	**8.4%**
MSCI EAFE	**3.7%**	**14.0%**	**5.8%**
BBG Barclays US Aggregate Bond	**3.1%**	**6.1%**	**4.5%**
Citi 3 Month US T-Bill	**.6%**	**1.2%**	**1.3%**
The S&P 500 Index Total Return is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. It consists of 400 industrial, 40 utility, 20 transportation, and 40 financial companies listed on U.S. market exchanges. This is a capitalization-weighted calculated on a total return basis with dividends reinvested. It represents about 75% of the NYSE market capitalization.			
The Dow Jones Industrial Average Total Return covers 30 major NYSE industrial companies. The Dow represents about 25% of the NYSE market capitalization and less than 2% of NYSE issues. It is a price-weighted arithmetic average, with the divisor adjusted for stock splits. This Index includes the effects of reinvested dividends.			
The NASDAQ covers 4500 stocks traded over the counter. Represents many small Composite index company stocks but is heavily influenced by about 100 of the largest NASDAQ stocks. It is a value weighted index calculated on price change only and does not include income.			
The MSCI EAFE Net Dividend is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States & Canada. Approximates the minimum possible dividend reinvestment. The dividend is reinvested after deduction of withholding tax, applying the rate to non-resident individuals who do not benefit from double taxation treaties. MSCI Barra uses withholding tax rates applicable to Luxembourg holding companies, as Luxembourg applies the highest rates.			
The Barclays Capital Aggregate Bond Composite index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors			
The Citi 3 Month U.S. T-Bill Index is a measurement of the movement of 3-month T-Bills. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value.			
Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.			

STOCK MARKET REVIEW

The first and second quarters of this year have been exceptional for stock investors. Despite a brutal May, the second quarter produced returns of 4.3% for domestic stocks and 3.7% for international stocks as measured by the S&P500 and MSCI EAFE indices respectively. Domestic smallcaps and midcaps, although positive, have underperformed large company stocks for most of 2019. Stock market volatility has been significantly lower than historical averages YTD and breadth continues to be exceptionally strong with nearly every sector of the stock market performing well.

Stocks are trading near an all-time high as new financial and economic records pile on. The current bull market has lasted over 2,591 days crushing the prior record of 1,963 days. As of July, the U.S. economy will have grown for a record 121 months without a recession. Net job growth is strong, business and consumer confidence is high, and government spending is accommodative of a growing economy. Record oil production in the U.S. is expected to continue. U.S. banks recently passed the new stress tests indicating low systemic financial risk.

As most investors know, corporate earnings is the biggest factor for the health of the stock market. First quarter earnings were impressive, with nearly 80% of companies exceeding analysts' expectations. Overall earnings growth was 3.5% higher than analysts had expected at the beginning of the quarter. In fact, analysts are expecting record earnings for all of 2019 and a reacceleration in 2020. We will be watching second quarter reports very closely as they are the best barometer for future stock market performance. Increasing labor costs and disruption/timing of raw materials and final output are key concerns going forward. Manufacturing data has been sliding for much of 2019 which deserves attention.

Falling interest rates and a perception that the federal reserve may lower the fed funds rate have provided a boost to the stock market recently but we caution that a prolonged, expanded and deeper trade war is a significant risk that can cause uncertainty and affect business investment expansion. Slower worldwide growth may spill into the U.S. economy affecting some sectors more than others. Elevated tariffs, regulations and anti-trust measures may also have a significant effect.

We encourage clients to maintain highly diversified investment portfolios and manage risk in a prudent fashion. Managing asset allocation (how much to allocate to stocks, bonds, cash, etc.) is so much more important than picking the right stocks and bonds or picking them at the right time (see page 2).

BOND MARKET REVIEW

The bond market has performed very well in 2019 with 10yr government bonds dropping significantly from the recent peak of 3.23% on 11/08/18 to 2.00% at the end of the second quarter. Global yields remain low with muted inflation and slowing economic growth globally having a significant impact.

Declining interest rates are a boon for bond holders and they can also stimulate economic activity while providing lower financing costs and credit availability for governments, businesses and homeowners.

Credit spreads (the difference between corporate bonds and risk-free treasuries) remain tight, signaling stable conditions ahead for the U.S. economy.

The federal reserve has managed to avoid a recession during the longest period of tightening on record. Interest rates, the unemployment rate and inflation remain extraordinarily low. In fact, expectations for inflation over the next 5-10 years are at 2.3% which is the lowest on record.

IS ASSET ALLOCATION IMPORTANT?

Asset allocation describes the way investors allocate their investments among different asset classes, namely stocks, bonds, cash and alternative investments. The percentage invested in each of these asset classes will have a significant effect on expected returns, expected volatility and the variance of risk and returns for investors. An investors' asset allocation decision is the most important factor for success, exceeding the impact of market timing and security selection by a wide margin.

Hundreds of millions of dollars and countless hours of research are spent finding the most attractive investments and the timing of those investments. Turn on any business news program and there is no shortage of investment professionals offering their opinion about which investment to buy and when, but even with perfect foresight, does timing and investment selection matter?

According to several studies, including one of the most sited studies on pension plans done by Brinson, Hood and Beebower in 1986, suggests that the decision of how much to allocate between asset classes (stocks, bonds, etc.) is the primary determinant of a diversified portfolio's variability of returns. Their paper suggests that the asset allocation decision explains nearly 94% of quarterly return variability, with market timing and security selection making up less than 6% of the equation. It is a wonder why investors place so much emphasis on specific investment recommendations and market timing opinions from talk show guests.

We strongly encourage our clients to focus on their asset allocation and identify a range of risk they are comfortable assuming to achieve the best risk-adjusted returns for their personal circumstances. A well-diversified investment portfolio tailored to the unique objectives of our clients is more likely to perform well in most market environments than a strategy that works only part of the time.

At the end of the day, the decision about how much to invest in stocks, bonds, cash and alternative investments is significantly more important than whether investors buy the right stock, stock fund, bond, investment model, CD, etc. Please reach out to us if you would like to review and/or adjust your asset allocation, it is the most important decision you can make as an investor.

PLANNING TO DO'S

1. Ensure that you have the following estate planning documents:
    a. Will
    b. Financial Power of Attorney
    c. Health Care Power of Attorney
    d. Advanced Medical Directives
2. Visit the website for the Social Security Administration, establish a profile (before a hacker does it for you), and review your benefits statement.
3. Create a teachable moment and have a conversation about finances and budgeting with a recent graduate or student.
4. Pull your credit report and review it thoroughly.

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