PLANNING POINTS…

September 2018

Index	9/30/18	3Q 2018	2018 YTD
S&P 500*	**2914**	**+7.56%**	**+10.56%**
Russell 2000**	**4216**	**+3.58%**	**+11.51%**
MSCI EAFE***	**1974**	**+1.35%**	**- .98%**
Barclays Capital Aggregate Bond Composite****		**+ .02%**	**- 1.60%**

*The S&P 500 is an unmanaged index of the largest 500 companies weighted by capitalization.

**The Russell 2000 index is comprised of the smallest 2000 companies of the Russell 3000 Index which measures the performance of the largest 3000 U.S. companies based on total market capitalization.

***MSCI EAFE Index 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

**** 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

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

Domestic, large capitalization growth stocks continue to lead the markets higher and smaller companies have provided significant lift. Tech and social media stocks have performed exceptionally well. The largest 6 make up nearly 20% of the S&P 500. International stocks and emerging markets stocks in particular have been sources of negative returns YTD.

Investors experienced many new, all-time daily highs in many stock indices in Q3. All while absorbing a bombardment of seemingly bad news from political issues, acts of nature, regulatory uncertainty, tariffs, and leadership failures too many to count. It is sometimes said that bull markets climb a wall of worry. This quarter was a great example of the market climbing that wall.

Volatility is up this year as measured by the S&P 500, but we suggest that the stock market volatility investors are experiencing in 2018 is more normal than the record low volatility experienced in 2017.

Q2 earnings were once again, very good. Earnings and earnings growth drives stock prices and this quarter was no exception. Companies continue to exceed wall street analyst targets for earnings and sales. Conference calls have been littered with management guidance for analysts to raise their performance expectations going forward.

The quality of earnings has improved with higher sales growth benefitting the bottom line as opposed to the cost cutting measures utilized during and after the Great Recession. The earnings train is moving along swiftly and it appears that it will take a lot more than tweets, war games, political hearings, higher interest rates to derail it.

Wall street analysts are skeptical and investors in general are far from euphoric. The valuations placed on most stocks today appear to be reasonable. Dividend yields are attractive relative to bonds. These are not characteristics of a typical bubble forming in the stock market. We suggest the long-term secular bull market is intact.

That said, we have seen allocation to stock grow in our clients' portfolios in general. This is largely due to positive market gains, especially in the large cap growth space. <u>We believe our clients should re-evaluate their stock allocation and ensure it is reasonable for their circumstances and tolerance for risk</u>.

BOND MARKET REVIEW

During the quarter, interest rates rose with the ten-year treasury moving from 2.85% to 3.06%. The FED raised the federal funds rate for the third time this year which is prolonging another difficult year for bonds. The Barclays Aggregate Bond index lost 1.62% in 2017 and has already lost 1.60% in 2018.

We continue to actively reset client expectations for bond returns as they are not likely to meet historical performance achieved during the last 35-year bull market in bonds. A bear market in bonds appears to be gaining traction.

We continue to recommend reducing interest rate risk by maintaining a short to intermediate term structure for bond holdings. Credit spreads remain tight. <u>Our CD's are an attractive alternative and we have very competitive rates.</u>

DONOR ADVISED FUNDS AND QCD'S – PHILANTHROPIC INTENT MEETS THE NEW TAX CODE

We have been and expect to be busy guiding our clients in their philanthropic ventures, this year in particular, given the increase in client demand for Donor Advised Funds (DAF's) and Qualified Charitable Distributions (QCD's).

Given the significant increase in the standard deduction beginning tax year 2018, many donors may not receive the tax deduction they might expect from their traditional philanthropic approach. The tax rules have changed and new opportunities have surfaced.

All of our clients with philanthropic goals should consider a Donor Advised Fund (DAF). These have grown in popularity since tax reform due to the opportunity to bunch gifts they would otherwise do over several years into one tax year to ensure they exceed the standard deduction and get "credit" for their gifting strategy. Gifts of appreciated securities to a DAF can transfer the tax burden to a charity (they don't pay taxes) and the charity will receive a stream of annual grants as the client sees fit. Grants and charities are easily managed and changed. The benefits are highly attractive in many ways we cannot list here. Most importantly, it can be a win-win for charities and clients.

If you are required to take a distribution from your IRA in 2018 or beyond, you will likely achieve lower taxes by distributing all or a portion of your RMD (Required Minimum Distribution) directly to a charity in the form of a Qualified Charitable Distribution. This is often a better opportunity than gifting highly appreciated securities from a taxable account. It is certainly more tax-savvy than gifting cash.

INVESTOR ACCESS RENAMED CLIENT ACCESS

To continue to align your experience and reflect our client service focus, Investor Access will be enhanced and renamed Client Access on October 20. The updates are based on extensive feedback from clients and advisors. We hope you find the changes appealing and your experience more streamlined. Some of the key updates include:

- Improved look and legibility of the website and full-site view on phones and tablets will be accessible.
- A new "Analysis" tab and several new graphs for enhanced detail of investment portfolios.
- An updated market information screen with easy
- access to timely research.

We get great feedback from client users who share their satisfaction with the following Investor Access benefits:

- Suppressing the volume of mail they receive (easily the most often reported benefit).
- Storing documents that users might also save in a fire-proof safe or a safety deposit box in the "Vault" (single best idea for 2018). Click the "*Vault" tab for a secure and personalized digital library to backup your important information that allows for 24/7 access from any device, anywhere. Users love it, especially snowbirds and millennials.*
- Accessing and sharing tax documents and statements with CPA's, lawyers, and family without the inconvenience and insecurity of snail mail.
- Independently performing cash management with ACH, bill pay, and funds transfer with their cell phone or any other device, 24/7 from anywhere.

For more information, open the Investor Access app or log into your current Raymond James account and click on the banner near the top of the page. You can also visit our webpage at www.gavinandassociates.com

For those of you who do not have access to your accounts online, now is a great time to establish an account with Client Access.

GAVIN AND ASSOCIATES WEBSITE

If you have not been to the Gavin & Associates website lately, we encourage you to rediscover the "RESOURCES" tab. We are providing our clients a collection of timely information and fun on a variety of topics. Here are a few titles you may find interesting:

- Weekly Market Snapshot
- 9 Games Your Brain Plays and How to Win Them
- $200 Billion of New Tariffs Approved – What's Next?
- Tackle Year-End Deadlines and Look Ahead to 2019
- Which Education Expenses Are Considered Qualified?
- Sticking to the familiar might get you stuck

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