PLANNING POINTS…

March 2019

Index	1Q 2019	2018	Avg. Annual Return Since 12/31/01
S&P 500	**13.7%**	**-4.4%**	**7.5%**
Dow Jones Industrial Average	**11.8%**	**-3.5%**	**8.3%**
NASDAQ	**16.5%**	**-3.9%**	**8.3%**
MSCI EAFE	**10.0%**	**-13.8%**	**5.6%**
BBG Barclays US Aggregate Bond	**2.9%**	**0.0%**	**4.4%**
Citi 3 Month US T-Bill	**.6%**	**1.9%**	**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

Stock investors have experienced back to back quarters of performance that we characterize as wild and statisticians would flatly describe as *outliers*. After a punishing fourth quarter, the first quarter of this year was wonderful for stock investors. Nearly every type of stock and sector advanced during the first quarter, reversing investors' experience in 2018.

What is an outlier? Teachers often use the term "bell curve" to describe test results. Back in the day, they used chalk to draw a bell-shaped hill, with the top of the bell representing an average and the two bottoms of the curve as tails to illustrate the distribution of scores. Typically, a few students get A's and a few get F's, but most students will cluster toward an average (top of the bell-shaped hill). Outliers occur at the tails (i.e. marking grades of A's and F's), farthest from average. Outliers are the least likely events.

Outlying performance in the stock market (-14% in 4Q18 followed by +14% in 1Q19 for the S&P500 ….yes, those are rounded quarterly returns!) are typically not forecasted or expected. Emotions as investors can be hard to manage during extreme swings like these, especially on the downside.

The 4th quarter of 2018 was an outlier in terms of both risk and returns, unfortunately breaking long-time records during its dreadful performance. Most school teachers would have posted a "F" on Q4's report card.

In comparison, the 1st quarter of 2019 was also an outlier, also breaking long-time records, however by nearly all measures returns were A+. Imagine how puzzling it would be for your child or grandchild to earn a "F" followed by an "A" in Math from one marking period to the next? Or the reverse?

We believe some of the outstanding performance in the first quarter was fairly predictable. We wrote in the most recent Planning Points that "valuations placed on earnings, cash flow, book value, etc. are compelling today given the indiscriminate selling" and we questioned headlines of a new bear market. Investors should recognize that markets can perform irrationally in the short run and reverse course quickly.

Evaluating valuations on stocks today, we suggest stocks are fairly priced and that the path of least resistance for the stock market appears to be higher given continued, albeit slower GDP growth, a more dovish Federal Reserve, and increasing demand for stocks (bond yields are low).

Of course, our expectations will change with new information and we will be watching developments on earnings revisions, infrastructure spending, and trade negotiations as potentially the most influential factors for the markets in the near term.

BOND MARKET REVIEW

<u>Both the bond and stock market rallied in the first quarter largely due to a more dovish tone from the Federal Reserve.</u> Evidence of a softening global economy stoked by headlines about the risk of an inverted yield curve causing a recession (for the third time in the last 3 quarters) has been impactful.

Maybe more impactful to interest rates in the U.S., however, has been the fact that many developed countries continue to have extremely low interest rates. This can pressure lower rates in the U.S. with the 10yr. currently yielding 2.41%, down from the recent peak of 3.23% on 11/08/18.

<u>Providing another example of outliers, 10yr. rates remain low or negative in Germany (-.01%), UK (1.1%), and Japan (-.06%) signaling the markets are still acting irrationally in an uncertain world.</u>

We note the stability in the U.S. dollar over the last few quarters. <u>Considering the 24-hour news cycle and the persistent pessimistic narrative about political and geopolitical factors, the muted volatility of the U.S. dollar is signaling a relatively calm environment.</u> Credit spreads (the difference between risk-free treasuries and corporate bonds) remain tight, also signaling stable conditions.

<u>The U.S. economic landscape remains supportive for continued growth and we do not envision an eminent recession like many pundits</u>. It will happen sooner or later, but knowing what we know today, low inflation, low interest rates, low unemployment, high consumer confidence, and a solid banking and housing sector all support an optimistic view for our economy. Wage and commodity prices continue to be on our radar.

INADVERTENT DISINHERITANCES

We encourage our clients to review their beneficiaries often and update us when circumstances change. We often discover mistakes during reviews that would have caused significant unintended consequences.

One popular misconception is that a grandchild or a daughter/son-in-law will inherit your IRA if your genetic daughter/son named as a beneficiary pre-deceases you. This may not be the case and often we recommend utilizing a per-stirpes designation, typically on a contingent beneficiary, to indicate the desire to pass the pre-deceased beneficiary's interest to *their* children (typically the IRA owner's grandchildren), not to the other named beneficiaries (typically other genetic daughter/son) or spouse-in-law. Per-stripes does not include stepchildren.

<u>If you are not familiar with or have not heard of a per-stripes designation, chances are you do not have one. Please call our office to discuss how simply checking a box on a form can avoid inadvertent disinheritances.</u>

Discussing beneficiaries isn't a high priority for most people for a variety of reasons, but we encourage you to add the conversation to your list of new years' resolutions (or replace one already completed).

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We encourage you to discover the "RESOURCES" tab on our website at <u>www.gavinandassociates.com.</u> You will find a collection of timely information about a variety of topics from Social Security myths and Philanthropic strategies to market updates.

You may find the following titles interesting:

- "Rightsizing Your Home for Retirement"
- "Are You and Your Partner on the Same Retirement Page?"
- "2019 Outlook: What Lies Ahead?"
- "Let's Talk Privacy, Tech Toys and Tax Fraud"
- "Achieving a Better Life Experience"
- "7 Beneficiary Decisions You Might Reconsider"

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