Dear Client,

--Bull markets climb a wall of worry; bear markets slide down a river of hope.

This is one of the most famous Wall Street truisms. I am not sure who originally said this, but it rings true through the decades. What does it mean? Simply put, it means every bull market in stocks is doubted by a cadre of naysayers. There is always a vocal group of skeptics who point out a myriad of very rational and quite possible potential events which could derail the market's ascent. In this sense, during a bull market, stocks are said to "climb a wall of worry". Bull markets end when the last holdout doubters finally throw in the towel, when FOMO—Fear Of Missing Out—gives in to greed and the last dollar is invested in the market. The constant drip, drip, drip of daily negative news is another brick in this massive wall of worry, which the optimists of the world try to overcome. This is an oversimplification of a very complicated process, but it holds true.

So what are these bricks, these building blocks of the Wall of Worry? I have ranked some in order of importance, in my opinion:

1. Trade Wars
2. Rising Interest Rates
3. Tightening Credit
4. Wage Inflation
5. Foreign Currency Crisis
6. Political Dysfunction
7. Recession

See, there is plenty to worry about! (How come you don't feel better??). Trade wars top the list, because there is historical precedent. Google Smoot-Hawley, and you will learn about the disastrous trade policy of the 1930's, when Congress tried to protect domestic industry by slapping tariffs on imported goods. Foreign governments promptly retaliated with more tariffs, and everyone became poorer as global trade collapsed. Tariffs are taxes on trade, and markets hate taxes. Taxes on trade are like sand in the gears of world economy.

Everybody knows interest rates are rising. The Fed Funds rate is now 2.0%, up from zero for eight long years. But the rate that really matters is the yield on the ten year Treasury bond, which reflects investors' expectations about future inflation. That rate has risen too, but not nearly as much (it is now 3.23%). Studies have shown that it does not begin to hurt stock prices until it surpasses about 5.0%.* Tightening credit and wage inflation are a cause, not a symptom, of rising interest rates.

Banks are lending money, but not at the stupid levels leading up to the housing bust. Wage inflation is rising, but is pretty subdued, especially given that the economy is at full employment.

Currency crises, political dysfunction and recession are much harder to predict, if not impossible. Turkey and Argentina occasionally appear in the news cycle as the latest currency basket cases, but their stories fade after a day or two. Any of the six bricks listed above could cause the next recession. It is simply impossible to predict. What I can predict though, is that the Bricklayer in Chief currently residing at 1600 Pennsylvania Avenue in will keep tweeting out new bricks.

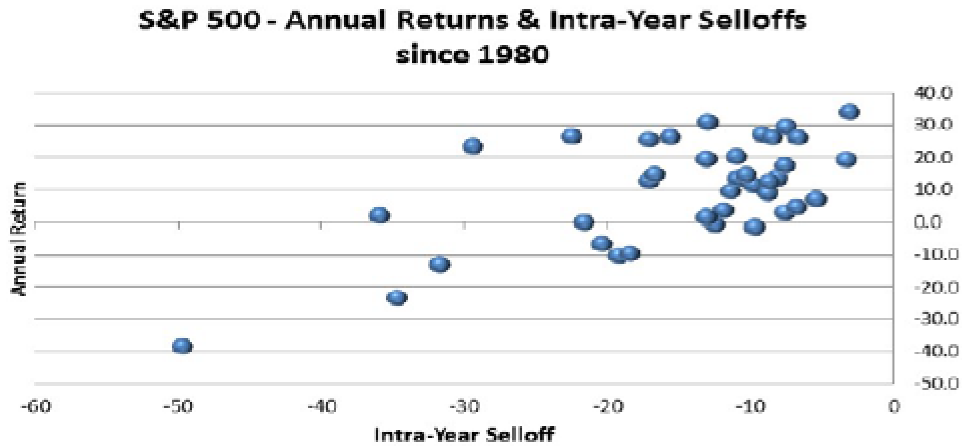
Speaking of politics, the two ton elephant in the room is the upcoming mid-term election. Elections can affect markets, as the surprise GOP takeover in 2016 of the White House and the Senate can attest. Many pundits are now predicting a Democratic takeover of the House in November. The incumbent party nearly always loses seats in a mid-term after a presidential election. Many clients have asked us how this will affect the economy, the markets and their portfolios. The answer: Not so much. A study published by JP Morgan shows that divided government has prevailed 61% of the time since 1947, and the average rolling six-month returns are as follows:**

	Avg. return	% of time
Republican	6.3%	11%
Democrat	4.3%	28%
Divided gov't	3.9%	61%

Here is the same analysis applied to real GDP, quarter-over-quarter % change:**

	Avg. GDP growth	% of time
Republican	2.8%	11%
Democrat	4.4%	28%
Divided gov't	2.8%	61%

Long-term, stocks rise about 70% of the time. The real risk is being under-exposed to this lopsided statistic at the wrong time. We are often asked, "Since we have such nice gains this year, shouldn't we take some now before the election and get a back in later at a cheaper price?" The answer is that it is really hard to time this successfully. Fortunately, the statistics favor the optimists. Every year since 1980 has seen and intra-year sell off in the S&P 500. The average sell off was 14.9%. However, in only six of those thirty-eight years resulted in a loss for the year. The average total return, including those six years, was 10.1%:***



As we enter the last quarter of 2018, it is time to think about IRA distributions, charitable gifting, Donor Advised Funds, and of course, gains and losses. It is also a good time to review your financial plan. If requested, we can post your financial plan to Investor Access so you can view it when you log in to your accounts. If you have not already installed the RJ app on your phone, it is a great way to stay on top of your investments. Please call Hayley if you need any assistance.

Regards,

Samuel Gross	Joseph Brady	Tonya Rasmussen
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*JP Morgan Guide to Markets 4Q pg. 16
**JP Morgan Guide to Markets 4Q pg. 30
***RJ Equity Market Update Q3 2018