



180 Mount Airy Road, Suite 208
 Basking Ridge, NJ 07920
 www.mendhamcapital.com
 T: 908.204.1234 F: 908.204.0006

July 3, 2019

THIRD QUARTER 2019 NEWSLETTER

The Opera Isn't Over...

Stocks prices declined in the first two months of Q2, however, the fat lady had yet to take the stage.

At midday on June 3 the S&P 500 was down 6.45% from its April 30 high as trade talks with China had broken down and the Trump administration was threatening increased tariffs on Mexican goods, not over any trade dispute, but rather as an instrument on immigration policy.

The negative emotions in the market place were such that we published a **Mid-Quarter Update** reminding MCM clients that the sky was not falling and most often the best approach is to keep calm and carry on.

Such comments proved prescient as equity markets turned on a dime and proceeded to rally into quarter end.

The first half of 2019 has been most rewarding for both stocks and bonds.

Review of Previous Quarters:

	<u>12/31/2018</u>	<u>03/31/2019</u>	<u>06/30/2019</u>	<u>YTD Change as of 06/30/2019</u>
S&P 500	2,506.85	2,834.40	2,941.76	+17.35%
Dow	23,327.46	25,928.68	26,599.96	+14.03%
NASDAQ Composite	6,635.28	7,729.32	8,006.24	+20.66%
MSCI EAFE	1,719.88	1,875.43	1,922.30	+11.77%
10-Year Treasury Note	2.68%	2.41%	2.01%	-67 basis points
3-Month T-Bill Rate	2.37%	2.40%	2.13%	-24 basis points
Price of Gold (COMEX)	\$1,284.70	\$1,297.00	\$1,412.50	+9.95%
Crude Oil (NYMEX)	\$45.81	\$60.18	\$58.20	+27.05%

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. Past performance does not guarantee future results.

- *A **basis point** is 1/100th of one percentage point.*
- ***Treasury Bills** are certificates reflecting short-term (under one year) obligations of the U.S. government.*
- ***Treasury Notes** are marketable U.S. government debt securities with a fixed interest rate and a maturity between one and ten years.*
- *The **S&P 500** is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.*
- *The **NASDAQ** composite is an unmanaged index of securities traded on the NASDAQ system.*
- *The **Dow Jones Industrial Average (DJIA)** commonly known as "the dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.*
- *The **MSCI Europe, Australasia and Far East Index** is a market capitalization weighted selection of stocks from 21 developed nations excluding the US and Canada.*

The Opera is Never Over

Think of your investment results in terms of a moving picture rather than as a snapshot. In all likelihood, your time horizon is the rest of your life. We should not get too caught up in the results of any particular quarter, good or bad.

At MCM we often feel that it is our job to be a cheerleader when the chips are down and the voice of reason when markets are exuberant. Looking back, we see that early June was a time to stay the course. Now that we have enjoyed a substantial rally, we believe this is a good time to contain enthusiasm and focus on investment fundamentals. Successful investing is not complicated, but it is difficult. Our human emotions can present the greatest obstacle to our success.

As investors, we must acknowledge that the future is not ours to know and we must manage our assets accordingly.

The strong first half is encouraging and there are positive underpinnings as we look out over the balance of the year. It would be wise, however, to expect bouts of downside volatility with gains somewhat harder to come by in the months ahead.

The markets are pricing in a July rate cut and continued progress on trade. The P/E (price/earnings) ratio of the S&P 500 is now somewhat elevated suggesting that any disappointments could be accompanied by a selloff in equity markets.

Now is the time to pay close attention to important considerations such as appropriate asset allocation, diversification and risk management. We'll discuss this some more below.

Current Events, Risks & Opportunities

President Trump and Chinese president, Xi Jinping met last weekend at the G-20 summit in Japan and declared a cease fire on the trade war. The US will remove some curbs on Huawei Technologies buying high-tech equipment and will put off additional tariffs on Chinese goods indefinitely. China will buy “large amounts” of American farm products. Most importantly, trade negotiations will start again.

The US has real leverage in talks with China as Beijing depends heavily on US technology. At the end of the day, it is in everyone’s best interest to strike a deal. The trade war hurts us both. We must recognize that it may take some time to reach an agreement and there are bound to be some ups and downs as negotiations proceed. One interesting result of the trade impasse has been a change to supply chains and some re-shoring of manufacturing activity to the US.

The Fed has made a major pivot. Late last year, the indication was that the Fed would raise short-term rates multiple times in 2019. Then, in early January, Chairman Powell instead emphasized Fed patience with respect to raising rates. Finally, in late spring, the Fed expressed concern about the economic impact of trade uncertainty and its dampening effect on global growth indicating the next move would likely be a cut. In the chart above, one can see the much-discussed inverted Treasury yield curve with the 3-month T-bill at 2.13% and the 10-year T-Note at just 2.01%.

The US economic expansion will reach ten years of age this month. We have the lowest unemployment in 50 years and American consumers are benefitting from low inflation and low interest rates.

According to *The Kiplinger Letter*, we can expect 2.5% GDP growth in 2019 and 1.8% in 2020. This follows 2.9% growth in 2018.

The Brexit saga continues. Boris Johnson and Jeremy Hunt are jockeying to succeed Theresa May in the role of prime minister. The tone of the debate suggests a “no-deal” Brexit is a real possibility.

The 2020 presidential campaign is under way and will be front page news for the next 18 months. We’ll need to keep an eye on Washington, DC this quarter as an agreement will be needed to fund the government by October 1.

We continue to have concerns over the conduct of US trade policy. Using tariffs to achieve policy goals, such as was done with Mexico in recent weeks, sets a distressing precedent. Such actions make it very difficult for companies to plan ahead and uncertainty is not helpful to commerce and economic growth.

MCM Approach & Strategy

At MCM, our approach remains consistent, in good markets and bad.

We strive to allocate your portfolio to have the growth potential to help achieve your long-term goals, in concert with a level of volatility that enables you to stay the course through thick and thin.

Our experience is that we get better long-term results by staying fully invested. It is nearly impossible to correctly time the markets. To successfully time the markets, one would have to be correct not once but twice; right on when to lighten up and right on when to get back in.

Our advice is to focus on the long run. Invest in quality and stay diversified. Rebalance regularly to manage risk.

The SECURE Act - Setting Every Community Up for Retirement Enhancement

The SECURE act was passed by the House in May and similar legislation is pending in the Senate.

Legislation is still in progress, however, we can identify the following anticipated provisions:

- Allowing small employers to band together to offer a common defined contribution plan (such as a 401(k) plan) for their workers.
- Permitting IRA contributions to be made beyond age 70 ½.
- Approving the use of annuities inside retirement accounts.
- Increasing the age at which RMD's must be made from 70 ½ to 72.

The new law is also likely to put limitations on the ability of a non-spouse beneficiary to stretch inherited IRA distributions. This is something Congress has been targeting for some time.

Both the House and Senate bills have yet to become law, but we do expect significant retirement plan reform this year. Once final legislation is passed, we'll reach out with updated strategies on Roth IRA conversions, IRA withdrawals and estate planning considerations.

MCM Notes

We are thrilled to welcome **Tomasz Kasztelan** as the newest member of the MCM team! Tomasz will intern with us through Labor Day before returning to his studies at FDU Madison. Tomasz is in the Honors Program with a major in finance and a minor in sustainability. Aside from school and work, Tomasz can often be found working out at the gym or competing in 2-man beach volleyball. He resides in Fords, NJ with his parents, his brother, John, and two sisters, Kasia and Ana. Welcome aboard!

Dan Long, Investment Consultant, turns 29 for the first time this month. He is excited to celebrate at the beach with good friends. The birthday festivities will be a brief respite as Dan will immediately resume preparations for his Certified Financial Planner comprehensive exam in late July. He has already completed five component exams and a capstone project. We are proud of all that Dan has accomplished!

Kerry Mellott, Investment Consultant, sharpened her financial planning skills at the Raymond James National Conference for Professional Development in May. Highlights included training on the latest enhancements to our financial planning software, updates on initiatives inside the Beltway and

time spent networking with highly successful colleagues from across the country. We would be remiss if we did not report that Kerry was the women's long drive champion at the annual RJ charity golf classic. Congratulations! Kerry, husband, Garrett, and son, Gavin, just returned from a long weekend of wholesome family fun on their annual camping trip to Hershey Park. Gavin just turned 5 and is excited to start kindergarten in the fall. Kerry and Garrett look forward to enjoying their pool and playing more golf over the balance of the summer.

Bob Burke, Investment Consultant, and family just celebrated the high school graduation of son, Matt. Matt will continue his studies at Moravian College in Bethlehem, PA. Bob is lucky enough to have two in college this year as daughter, Erin, returns to High Point University for her senior year. Bob is looking forward to a nice "raise" in 2020!

Hilary Fagnani, Investment Consultant, and husband, Mark, spent most May weekends preparing for the Huntington Garden Tour at their home in early June. They received over 250 visitors and many great accolades. As this newsletter goes to press, they are exploring Tuscany with their 4 sons and daughters and 2 of Mark's sisters. It is such a special gift to have everyone together in one place!

Bill Burke, and wife, Laurie, are enjoying their annual summer pilgrimage to the beaches of Bay Head, NJ which they refer to as summer camp for adults. On recent weekends they have "hit for the cycle" with visits to the beach, the pool, the golf course, the tennis courts and some cruising on the boat!

Thank you for your continued trust and support.

Sincerely,



William F. Burke, Jr.
Registered Principal/
Investment Consultant
Raymond James Financial Services, Inc.



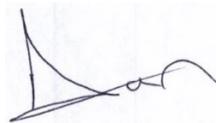
Hilary L. Fagnani
Investment Consultant
Raymond James Financial Services, Inc.



Robert J. Burke
Investment Consultant
Raymond James Financial Services, Inc.



Kerry Mellott
Investment Consultant
Raymond James Financial Services, Inc.



Daniel Long
Investment Consultant
Raymond James Financial Services, Inc.

The information contained in this report does not purport to be a complete description of the securities, markets or developments referred to in this material. Any information is not a complete summary or statement of all

available data necessary for making an investment decision and does not constitute a recommendation. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate and complete. There is no guarantee that these statements, opinions, or forecasts provided herein will prove to be correct. Rebalancing a non-retirement account could be a taxable event that may increase your liability. Any opinions are those of William F. Burke, Hilary Fagnani, Robert J. Burke, Kerry Mellott, or Dan Long and not necessarily those of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Investments mentioned may not be suitable for all investors. Past performance is not indicative of future results. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. Dividends are subject to change and are not guaranteed. U.S. government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. Holding investments for the long term does not insure a profitable outcome. Investing involves risk and you may incur a profit or loss regardless of strategy selected. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in emerging markets can be riskier than investing in well-established foreign markets. Diversification does not ensure a profit or guarantee against a loss. Mendham Capital Management is not a registered broker/dealer and is independent of Raymond James Financial Services. Investment advisory services are offered through Raymond James Financial Services Advisors, Inc. and Mendham Capital Management.

Securities offered through Raymond James Financial Services, Inc. member FINRA/SIPC