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October 4, 2019

FOURTH QUARTER 2019 NEWSLETTER

Climbing the Wall of Worry

Equity indices were little changed in Q3 but have experienced the best opening 9 months since 1997.

It appears that an accommodative Fed has trumped (no pun intended) the trade war, political discord in the US and anemic growth in Western Europe and Japan.

One could say that while it has been good year for stocks, it has been an awesome year for bonds. At the moment, 2019 represents a top 10 year for bond performance going all the way back to 1926.

After all, lower yields reflect bond prices that have moved higher. Bond investors have both clipped their coupons and experienced price appreciation resulting in high total returns. The price rise has been more dramatic further out the curve such that a 10-year Treasury Note pays substantially less than a 3-month T-Bill (see chart below). The result is an inverted yield curve (short-term rates higher than long-term rates) which has drawn much attention in the financial press.

The reason for the excitement is that an inverted yield curve is considered a harbinger for recession. There is some validity to this as every recession since 1962 has been preceded by an inversion. We should point out, however, that not all inversions are followed by recession and the lead time between inversion and recession can be substantial. More insights to follow.

Review of Previous Quarters:

	12/31/2018	06/30/2019	09/30/2019	YTD Change as of 09/30/2019
S&P 500	2,506.85	2,941.76	2,976.74	+18.74%
Dow	23,327.46	26,599.96	26,916.83	+15.39%
NASDAQ Composite	6,635.28	8,006.24	7,999.36	+20.56%
MSCI EAFE	1,719.88	1,922.30	1,889.36	+9.85%
10-Year Treasury Note	2.68%	2.01%	1.67%	-101 basis points

3-Month T-Bill Rate	2.37%	2.13%	1.83%	-54 basis points
Price of Gold (COMEX)	$1,284.70	$1,412.50	$1,478.70	+15.10%
Crude Oil (NYMEX)	$45.81	$58.20	$54.27	+18.47%

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 Fed, Economics & Trade

The Fed has certainly been in the spotlight over the past 12 months. At this time last year, the Fed was busy raising rates and was signaling several additional increases in 2019. One outcome of this policy was a miserable Q4 2018 for equities which reached its nadir on Christmas Eve. So much for happy holidays!

Early this year, the Fed made a major pivot by expressing concern about the economic impact of trade uncertainty and it's dampening effect on global growth. The outcome was a 25-basis point rate cut in July followed by another 25-basis point cut in September. The target Fed Funds rate level is now 1.75-2%. The markets have already priced in one more cut later this year.

As you may know, the Fed reports to Congress and is meant to be independent of the executive branch. The bashing of the Fed by President Trump is nothing short of unprecedented. It appears the President wants the Fed to backstop the negative economic impact of the trade war with a low rate policy. Chairman Powell is seeking to assert his independence, yet he must take into account the risks that go along with Trump administration trade policies.

The record-breaking post crisis economic expansion in the US is now more than 10 years old. There is a general awareness that the expansion will not last forever and one day we will experience a contraction. As a result, any softness in the economic indicators seems to result on downside volatility such as we experienced in early June and mid-August.

The timing of a downturn in the economy is notoriously difficult to predict and rumors of a demise of the current expansion may be greatly exaggerated. There is a simple reason for this. The unemployment rate of 3.7% represents a 50-year low and consumer spending accounts for almost 70% of US GDP.

US household wealth actually hit a record level in Q2 2019. Very few of the analysts we follow are predicting that recession is just around the corner.

According to *The Kiplinger Letter*, we can expect 2.3% GDP growth in 2019 and 1.8% in 2020. *Kiplinger* anticipates that inflation will reach 2.3% at the end of 2019 as new tariffs affect the price of consumer goods, up from 1.7% right now.

At this writing, it is unclear where the trade war will lead us. We continue to have misgivings about the conduct of US trade policy. Some objectives, such as the protection of intellectual property, are very worthwhile. We are concerned, however, about the impact of uncertainty and the challenges companies face while trying to plan ahead. International commerce and economic growth are likely to suffer. Where do you build your new factory? We are in uncharted waters and the potential exists for unintended consequences.

US Politics

Presidential election season is in full swing and the noise from relentless campaigning will be with us for the next 13 months. Campaign sound bites may well create angst and move markets.

In late September House Speaker, Nancy Pelosi, announced a formal impeachment inquiry against President Trump, accusing him of jeopardizing the integrity of US elections during his phone conversation with Ukrainian President Volodymyr Zelensky. Interestingly, the announcement was not accompanied by any great disruption in the equity markets. In all likelihood, this reflects the expectation of a lengthy process and the low probability that the president will actually be removed from office, given the high hurdle of a two thirds vote to convict in the Republican controlled Senate.

International Turmoil

A stunning drone attack on September 14 against Saudi oil infrastructure resulted in the world's largest oil supply disruption since the Gulf War in 1991. Both the Saudi and US governments quickly placed blame on Iran but have yet to produce irrefutable evidence to support this conclusion. Oil prices actually drifted lower in Q3 but are up over 18% YTD.

The Brexit saga continues. On September 24, the UK's Supreme Court unanimously concluded that PM Boris Johnson's suspension of parliament was unlawful. It appears the UK is heading toward another general election; however, this election is not likely to take place before the October 31 Brexit deadline. A soft Brexit outcome (the UK leaves the EU but there is a long taper period and many rules remain in place) may well be the best compromise and most likely scenario.

MCM Approach & Strategy

Let's start with a few bullet points on the current environment:

- We are late in the cycle.
- Stocks are more expensive than they were at the beginning of the year.
- It is reasonable to expect more volatility given this backdrop.
- This is more a time to focus on downside protection as opposed to upside capture.
- A good approach is to stick with high quality stocks and bonds.
- Rebalance regularly to protect gains and manage risk.

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.

We really like the following quote from Peter Lynch: "Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves."

Our job is not to predict corrections and bear markets but rather to build portfolios that can withstand them. In large part, the key is that investors must be comfortable staying the course through adverse markets.

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

Planning Opportunities

When it comes to taxes, less is more, such that we will ramp up our annual 4th quarter focus capital gains in coming weeks. We'll carefully consider both the realized and unrealized gains in your taxable accounts. We'll also take into consideration anticipated capital gain distributions from your mutual fund holdings. The end result will be a well thought out strategy for managing gains consistent with a well-balanced portfolio. We'll be in touch.

We are also focusing on Roth IRA conversion planning as a high potential strategy for Q4 and the next several years ahead. Current tax rates are low and there is pending legislation that may change the rules on future IRA distributions. This combination is such that we believe many MCM clients would benefit from implementing a plan to convert traditional IRA assets to Roth over the next few years.

Another strategy that is top of mind is to make use of Qualified Charitable Distributions (QCD's) from an IRA, both as a method of supporting favored charities and as a tax planning tool, especially for those over 70.5 seeking to optimize planning for Required Minimum Distributions (RMD's).

MCM Notes

Dan Long, Investment Consultant, reached a major milestone at MCM this summer. He successfully passed all of the requirements to become a CERTIFIED FINANCIAL PLANNER (CFP®) certificant! Congratulations Dan! He is already putting his knowledge to work for the benefit of MCM clients. Dan also has a very enjoyable summer continuously working on his golf game and making plenty of visits to the New Jersey shore.

Kerry Mellott, Investment Consultant, enjoyed a wonderful summer with family and friends. Kerry was thrilled to welcome another nephew, Mac, to the clan. Her son, Gavin, started kindergarten this fall. He loves school, taking the bus and is quite independent! Kerry and husband, Garrett, are planning to get in a few more rounds of golf this fall. Kerry & Bill spent the last number of weeks preparing for an educational seminar which they presented to a group of CPAs. We strive to collaborate and deepen relationships with outstanding CPA's, estate planners and asset protection attorney's.

Bob Burke, Investment Consultant, and wife, Maureen, have been on the parent's weekend tour. They visited freshman, Matt, at Moravian College in Bethlehem, PA and also senior, Erin, at High Point University in High Point, NC. On the way to North Carolina, they made a visit to Kings Vineyard in Crozet, VA, enjoying a tasting and winery tour. Great fun! Son, James, is set to run the New York City Marathon this fall and will be raising money for the treatment of autism with every step. We are excited to share the news that James has started to intern at MCM one day per week to learn the industry and build a career foundation. You may see him running circles around 180 Mount Airy Road!

Hilary Fagnani, Investment Consultant, and husband, Mark, celebrated 5 years of marriage in August with a special dinner at the River Café in Brooklyn and a trip to Asheville, NC. After a long weekend of touring Biltmore House, hiking, kayaking and browsing in art galleries, they are sure to return to experience Asheville's many delights!

Bill Burke, and wife, Laurie, had a fantastic summer residing in beautiful Bay Head at the New Jersey Shore. The weather was great allowing for an abundance of beach time, tennis, golf and boating. Most of all, the opportunity to entertain and spend time with close friends brought them great joy. Autumn in New Jersey is a most pleasant season but is always bittersweet after a fun-filled summer!

Thank you for your continued trust and support.

Sincerely,

Sincerely,

Bill

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

Hilary

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