



July 5, 2019

Hello, this is the first of what I intend to be a quarterly item. My intent to communicate updated general market results and what appears to have been key reasons for that experience. Some of this information will be taken from market leaders that I follow. If it is taken verbatim, I will note it as such. Secondly, if there are items in the news stream that may impact markets in the upcoming quarter, and lastly a financial services concept or product explained (to some degree).

If you enjoy this, please let me know. If there is a topic or question you have about anything in this paper or in general, please let me know. Lastly if you don't wish to receive this in the future please let me know and I will remove you from future distributions.

MARKET RESULTS (see footnotes) and OUTLOOK

	YTD (w/e 6/28/2019)	1-Year
S&P 500	18.5%	10.5%
DJIA	15.4%	12.5%
NASDAQ	21.3%	7.9%
Foreign Stocks	14.5%	2.6%
Emerging Markets	10.8%	3.8%
10-Yr Treasury	7.4%	10.3%
US Bonds	6.1%	7.9%
Global Bonds	5.6%	6.2%
Munis	5.1%	6.7%
Fed Funds Target	2.50% As of 6/28/2019	
Inflation	2.00% As of 05/31/2019	
Unemployment	3.60% As of 05/31/2019	
GDP	3.10% As of 03/29/2019	

The second quarter was a microcosm of the previous three quarters. The quarter began with U.S. stocks trading higher into uncharted territory. The euphoria was short lived as expanded tariff concerns took center stage in May. This resulted in a swift 6.5% stock correction. In June, the central banks came to the rescue. Facing weaker economic data, risks to the trade outlook, and still low inflation, the Federal Reserve (the Fed) and the European Central Bank (ECB) made statements that the cavalry is coming in the form of further monetary stimulus. Sometimes bad news can be good news, at least which is how the markets interpreted these statements by the central banks. Markets have been pricing in Fed and ECB rate cuts and the potential for further ECB quantitative easing (QE), all of which is supportive of developed market government bonds. Rate cuts and further QE can also be supportive for risk assets (think equities) if they are successful in preventing the current slowdown from turning into an economic downturn. So, current market pricing reflects expectations that central bank stimulus will keep the economic expansion going.

In short, the market has been willing to ignore the bad (or weaker) economic data in the hope that central bank stimulus will help avoid a recession. If the data remains weak, delivery of the hoped for (and priced in) stimulus seems highly likely. Whether the stimulus will be enough to extend what is now the longest economic expansion in history, only time will tell. (JPMorgan Asset Management Team widely quoted in this summary).

Nuveen's Global Investment Committee is of the opinion that the 2nd half of 2019 will be tougher than the first. At the start of the year, they pointed to a trade war escalation as the downside scenario. They are focusing on the possibility of a weaker economic environment over the coming months. In their opinion they don't think we've seen the end of downside corporate earnings revisions, which of course results in lower equity prices.

In short, more volatility during the 2nd half of 2019 is likely, and the rate of expansion/return is not likely to be repeated. As this overall expansion continues, allocation will likely become more important. Elimination of unnecessary risk may well prove a prudent action. Ultimately, each of you should understand what rate of return (and level of risk) is required to achieve your objectives! Make sure you and your advisor are in alignment and your portfolio design is aligned with your objectives.

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FINANCIAL CONCEPT - ASSET ALLOCATION:

Asset allocation is a term that is frequently tossed around by financial advisor types. What does that really mean and why do we believe it is so important? The term can't be found in Merriam-Webster, so is it simply made up language? Perhaps, but the words (in my opinion) ultimately mean managing risk! People hear folks in the media refer to the Dow Industrial or S&P 500 rates, occasionally in extreme circumstances the news and fluctuation of the numbers result in an emotional reaction. Most remember the difficult days of late 2008/early 2009, effective asset allocation is designed to address that experience. Effective and efficient asset allocation requires that multiple questions be asked and answered, for example, what percentage of portfolio funds should be invested domestically and internationally, and, how much of that portfolio should be invested in stocks, bonds, alternatives, or simply held in cash; timelines are also integral to the filtering of the various options.

Many knowledgeable market observers agree that the asset allocation decision is the most important decision made by an investor. A widely circulated study from 1986 found that the asset allocation decision accounted for more than 90 percent of the variance in quarterly returns for a typical large pension fund. Consider the 25-month bear market that occurred during 2000-2002. A 100 percent stock portfolio (Wiltshire 5000 Index) would have lost about 44 percent of its value, while an investor who chose a 60 percent stock/40 percent bond combination would have lost only about 17 percent. On the other hand, a 100 percent bond portfolio (Lehman Bond Index) would have gained about 23 percent in value.

The point is NO ONE can be sure what financial markets are going to do over some future period of time. And if, in fact, stocks decline sharply, as they invariably will, asset allocation becomes critical to wealth preservation. Different asset classes offer various potential returns and various levels of risk, and the correlation coefficients between some of these asset classes may be quite low, thereby providing beneficial diversification effects. It is critically important that you as an investor be direct and explicit when communicating your thoughts about goals/objectives/timelines and feelings about the market. Only then can your advisor do his/her job to insure the asset allocation (or I like to use the phrase risk profile) is aligned and built to withstand the worst or best the markets throw at us!

Regards,
Jim

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Footnotes:

Source: FactSet. S&P 500 is represented by the S&P 500 Index, DJIA is represented by the Dow Jones Industrial Average, NASDAQ is represented by the NASDAQ Composite Index, Foreign Stocks are represented by the MSCI EAFE Index and Emerging Markets are represented by the MSCI Emerging Markets Index. 10-Yr Treasury is represented by the FTSE 10-Year Treasury Bond Index, US Bonds are represented by the Bloomberg Barclays US Aggregate Index, Global Bonds are represented by the Bloomberg Barclays Global Aggregate Index and Munis are represented by Bloomberg Barclays Municipal Bond Index. Fed Funds Rate, Federal Reserve; Inflation and Unemployment, US Department of Labor; and GDP, US Bureau of Economic Analysis.

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