Newsletter

June 2019

COMMENTARY

Let's start off with "great" financial analyst/dad joke:

A Technical Analyst and a Fundamental Analyst are chatting about the markets in the kitchen.
One of them accidentally knocks a kitchen knife off the table landing right on the fundamental analyst's foot!
The fundamental analyst yells at the technician, asking him why he didn't catch the knife?
"You know Technicians don't catch falling knives!" the technician responded.
He in turn asks the fundamental analyst why he didn't move his foot out of the way?
The Fundamental analyst responds, " I didn't think it could go that low".

Crickets?! Come'on!

Okay, that probably wasn't funny for most people but if we got one person to at least smile, you're welcome because this month's news cycle was no fun. In no particular order: China trade talks fell apart and are turning into a trade war, President Trump adding a second trade war and imposed tariffs on Mexico, 10-year yields are dropping like a stone as investors are predicting two rate CUTS in 2019, and Brexit is so messy it's just not even fair to pick on them. But what about the unemployment rate dropping from 3.8 percent to 3.6 percent? That has to be good? Participation Rate dropped from 63.0 percent to 62.8 percent, ugh.

With the imposed tariffs on Mexico, President Trump has started a second trade war and now must maneuver two-fronts - both of which are very important. A tariff of 5 percent on all imports from Mexico will be imposed on June 10th and the tariffs will increase gradually maxing out at 25 percent "until the Illegal Immigration problem is remedied at which time the Tariffs will be removed", President Trump tweeted. Mexico is the third-largest trade partner with $346.5 billion in goods imported in 2018 and these tariffs could have large effects on both economies. Not to be overlooked, the trade negotiations with China look to be heading the wrong direction. After appearing likely that a deal was getting close to being done, talks have been put

ECONOMIC HIGHLIGHTS

S&P 500	2,752.06
DIJA	24,815.04
NASDAQ	7,453.15
OIL	$53.50/barrel
GOLD	$1,311.10/ounce
10-YEAR TREASURY FIELD	2.14%
UNEMPLOYMENT	3.60%
GDP	3.10% (Q1 2nd estimate)
CONSUMER PRICE INDEX (CPI)	0.3% (12 mo change +2.0%)
CORE CPI	0.1% (12 mo change +2.1%)

GDP – second estimates of 3.1 percent shows we could be looking at a very strong first quarter of growth. Consumer spending has been strong and continues to drive the economy.

FOMC Meeting – the Federal Reserve continues to guide that they will be patient and hold monetary policy steady. With no changes to the target rate the Federal Funds Rate stays at 2.25 to 2.50 percent.

Brexit – Theresa May is stepping down after repeated attempts to push a Brexit deal through Parliament. We'll see if the next person up can get something, anything done.

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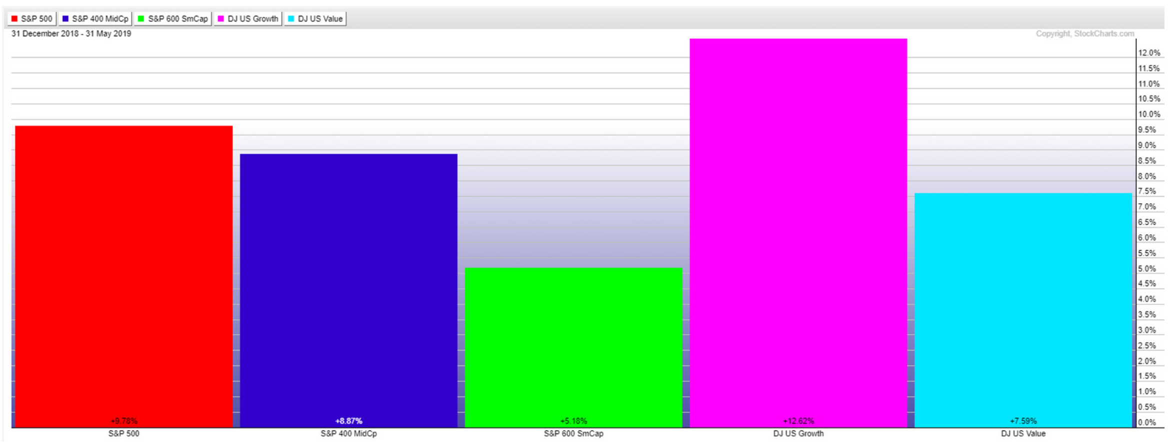
on ice for the time being as President Trump is increasing the 10 percent tariffs on $200 billion in Chinese goods to 25 percent. China responded with tariffs of their own and we are seemly back to the drawing board. We could be in store for some bumpy months as we see how both of these situations playout, but long-term our base case is still expecting a deal (now two deals) get done although we now don't expect the deals to get done as quickly as we previously thought. I'm all for dealing with Illegal Immigration (Mexico) and protecting our intellectual property (China) while getting free-trade, I just hope we get there without too much damage.



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The S&P 500 index was down -6.36% for May, but the Bloomberg Barclays US Aggregate Bond index was up +1.78 for the month of May. Nobel Prize winner Marry Markowitz called diversification "the only free lunch in finance" and if your risk tolerance has you in a model that calls for bonds you were happy to have them. And that's where we are in the economic/ market cycle – bonds do not have a great outlook when we are looking at them from a return standpoint, but the diversification and low correlation they bring when compared to equities is a huge benefit. This year we have started to make our bond allocations in portfolios more conservative and currently planning on continuing that conservative bond trend in the future. At the same time we are keeping the equity allocation tilted for positive growth. Equities historically have a really nice run before a market correction and economic recession, so getting conservative too early is just as bad as being too late. A barbell approach of 'risk on' in equities and 'risk off' in fixed income looks like the right choice in the current market.
Our long-term view (multiple years) for equity markets is still bullish. We believe we are in the middle part of a secular bull market. With the previous two secular bull markets lasting 17 years, so we could be in for a nice ride if this secular

MARKET TRACKER

INDEX	3 MO	1 YR	3 YR	5 YR
S&P 500	-0.67%	3.78%	11.72%	9.66%
DIJA	-1.51%	-5.75%	5.82%	1.27%
NASDAQ	3.76%	6.40%	2.50%	2.70%

bull market is of similar duration. Inside of our long-term secular bull market we do expect to see a bear market and a recession, but currently do not project this for 2019. Our S&P 500 target for 2019 is 2800 for the year-end. In Fixed Income, we are maintaining our over-weights in International and Floating Rate bonds but will be gradually looking to move into U.S. Government Bonds and Mortgage-Backed Securities. Our research team is constantly evaluating our products and tactical positions inside both our fixed income portfolio and equity portfolio, looking at both larger trends and short-term opportunities. With daily monitoring to accounts on an individual basis, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.

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