3rd Quarter 2018

Index returns for portfolio returns, a tale of two stories.

As of the end of the third quarter, all model portfolios are operating at the same slightly reduced risk level we established at the end of January during our annual rebalance. There have been no significant changes to our indicators, certainly nothing that would warrant a change in allocation of our models. As of 9/30 the S & P 500 for the year is up 10.6%, The DOW is up 8.8%, Foreign Stocks are down 1% Emerging Markets stocks are down 7.4% and the 10 year Treasury is down 3.7%. All are year to date returns including dividends. Yes, the markets shed over 6% in the beginning of the 4th quarter, we are monitoring this situation and will be in touch if things warrant a change, however the scope of this news letter is to focus on the year to date through end of 3rd quarter. Hence, even though US stocks have performed the overall portfolio experiences drag from the other areas you are invested in. This is not uncommon, but recent history (2016 &17) had most asset classes positive which led to our moderate portfolios putting up nice returns. So, it's easy to forget that sometimes things go down. You don't have to go back far to find another year like this, it was 2015. A couple of other factors are at play as well. As of the end of the 3rd quarter the Top 10 best performing stocks in the S&P 500 accounted for 54% of the gains. This is an extremely narrow market and frankly not what we like to see, a healthy stock market is more broad based with a lot of stocks participating.

We remain diligent in terms of watching our indicators (especially with the start of 4Q being suspect) and we simply don't have enough evidence to reallocate the models at this time (Good or bad!). Once we see some evidence, we will act accordingly. Have a great fall and holiday season.

Be safe. Joe, Adam and Ted

"Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria."

-John Templeton

We feel it is necessary to address a topic we have gotten several questions on and that is "If markets are near all time highs and up nicely for the year why is my balanced fund or moderate portfolio only up somewhere in the 1-2% range?" The answer lies in asset allocation. If you are diversified in your portfolio (most of you are and should be) you hold many different asset classes, only a couple of these asset classes are US stock related. The others are Foreign stock and bond and US Bond. You can see from the beginning of the newsletter several of these asset classes have negative returns for the year.

In short the more your portfolio had of these 10 stocks the better you did and vice versa. Secondly, in a rising interest rate environment (the Fed has raised rates a number of times this year and is forecast for additional rate hikes in the months to come) bond investments will lag. Remember that a bad year in bonds is way better than a bad year in stocks so unless you choose to take on more risk in your investments by increasing stocks (which at present we would not advise, we continue to favor protecting principal vs. reaching for maximum gains) then your current allocation should remain as is. If you would like to discuss your overall risk vs your personal situation please let us know, we are always open to discuss this.

***The Standard & Poor's 500 (S & P 500) is an unmanaged group of securities considered to be representative of the stock in general.**

***The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.**

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