

2nd Quarter Special Update 2019



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We wanted to send out a quick newsletter to update the current situation. To help set the stage let's visit where we have been this year. In short, the stock market has been on a major upswing this entire year. Through May 1st of this year the S&P 500 was up an astonishing 18% for the year. As we have eluded to in the past this was largely due to 2 reasons. First the Federal Reserve in January announced that further interest rate increases were not likely. This was a tremendous reversal in their thinking and communication from the end of last year where they were forecasting 2 additional interest rate increases for 2019. Much of the angst in December of last year revolved around the Federal Reserve's Commentary around raising interest rates. Hence this reversal and commentary to no more interest rate increases was welcomed by the stock market in a major way.

The second issue that has been visible for what seems like forever is the China Trade War. For months the stock market has been reacting positively to commentary from the US Government and the Chinese Government on how the talks have been progressing nicely. This all came to a somewhat abrupt ending on Thursday May 9th. That's the day that seemingly out of nowhere the US Government stated that the talks had broken down and that additional tariffs on Chinese Goods would be put into effect at Midnight that night. This created instant stock market volatility as clearly the market had been expecting a resolution to the Trade War and did not get it.

Monday morning May 13th, the Chinese Government retaliated by putting additional tariffs on United States goods. This is a textbook definition of a trade war and it is now in full swing. Unfortunately it is likely to get worse before it gets better and both sides will likely keep firing shots back and forth at each other until a deal can be reached.

The important thing to remember is that this benefits no one on either side. So getting a trade deal in place is something that both sides know

**Don't check your account
balances daily and your
blood pressure once per year!
Constant updates make
investing more emotional
than it needs to be.**

they need to get done. Let's hope things can get in order soon. In the meantime expect the markets to react swiftly to every headline (could be sharply up or down).

To put things in a little perspective, the markets as of Friday were down only about 2% (clearly the market had gotten ahead of itself) from their highs which is frankly nothing and happens quite a few times per year. We know the media will over play their hand as they always do and cover this at nauseum. So be prepared for the "constant coverage" that is about to take place.

Ultimately we would not be surprised to see markets pull back greater than 5% or 10% which also is an annual event for one reason or another. As we mentioned in the last newsletter, there were 3 quarters to go in the year and risks remained high. Hence we had reduced our risk in all models on January 31st.

We will continue to monitor things and adjust accordingly if we need to and will keep you posted on further developments. Feel free to reach out with questions or comments.

**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.*

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

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