SAM NEWS

1st Quarter 2019 Report
April 2019

Rapid Recovery

Best Start For S&P 500 Index Since 1998

After a dismal end to 2018, stock returns are off to a great start in 2019. You will notice that the stock losses from 2018 have been more than recovered in just the first three months of this year. As measured by the S&P 500 Index, stocks are now less than 5% from their all-time highs. This is a remarkable recovery considering the S&P 500 declined 19.8% from the peak on 9/20/2018 through the lowest close on 12/24/2018. Our "What You Should Do Now" section from last quarter's newsletter has proven to be sound advice. Any new money added to portfolios in early 2019 has experienced higher than average rates of return. Please read on for our most recent SAM Outlook and Strategy.

1st Quarter 2019 INVESTMENT REPORT

U.S. stocks, as measured by the S&P 500 rose 13.6% during the first quarter. The tech heavy Nasdaq Composite rebounded 16.5%, small company stocks as represented by the Russell 2000 were up 14.6%, while the DOW 30 gained 11.8% for the quarter. International stocks as measured by the MSCI EAFE Index also advanced 9%. The Barclays Capital Aggregate Bond Index rose 2.9% as the Federal Reserve put interest rate hikes on hold. The first quarter rally was very broad, with stocks, bonds, and commodities all advancing.

INVESTMENT INDICES

All numbers listed are total returns (including dividends) and are percentage gains or losses.

	1st Qtr.	2018	2017
Dow 30	11.8%	-3.5%	28.1%
S&P 500	13.6%	-4-4%	21.8%
Nasdaq	16.5%	-3.9%	28.2%
Russell 2000	14.6%	-11.0%	14.6%
MSCI EAFE (Int'l stocks)	9.0%	-16-1%	21.8%
Barclays Capital Aggregate (Bonds)	2.9%	0.0%	3.5%

Annual Review Appointments Continue

We are continuing to set annual account review appointments. If we have not met this year and you would like to set an appointment, please call our office toll-free at 877-658-5193 and we will meet with you right away.

Last Chance to Fund Retirement Plans For Tax Year 2018

In general, most retirement plans must be funded by April 15th this year to be considered for the 2018 tax year. This applies to traditional IRAs, ROTH IRAs, SEP IRAs, SIMPLE IRAs, and most formal retirement plans. If you have not funded your retirement account for 2018 and are still planning on contributing, you should do this as soon as possible. If you have questions about how to make your contribution, please contact our office toll-free at 877-658-5193 and we will be glad to assist you.

2nd Quarter Holidays
Good Friday, April 19th
Memorial Day, May 27th
Independence Day, July 4th

SAM Outlook and Strategy on the following pages.

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SAM OUTLOOK

The longest ever U.S. economic expansion is continuing into 2019 (now 117 months long). The most recent economic data shows that our economy may be slowing, but not yet contracting. We believe that there may be some "growth scares" in 2019, but that U.S. growth will moderate at around 1.5-2% over the near term. The benefits from the Tax Cuts and Jobs Act of 2017 and expansionary fiscal and monetary stimulus around the world are abating. Tariffs and the government shutdown have also been more recent drags on economic activity. These factors have caused a downshift in U.S. growth, but in our opinion, we are not nearing a recession.

As always, we are continuing to track the leading economic indicators for clues about our economic health and how that affects our portfolios. Economic data has recently been coming in weaker than expected and according to analysts, year over year corporate earnings are forecast to decline 3.7% in the first quarter. Current fundamentals such as consumer demand, household balance sheets, price inflation, and the present stance of monetary policy suggest that the U.S. recovery could persist at least through 2020. At this point, it appears that we are headed for an economic "soft landing." If we can make it to the end of the year with benign inflation and the Federal Reserve on hold, our economic expansion could continue longer than many people think.

SAM STRATEGY

In spite of the recent slowdown in economic growth from over 4% in mid-2018 to a current reading of 2.2%, our overall strategy has remained largely the same. We continue to believe that a highly diversified, global portfolio best meets the long-term goals for our clients. The portfolio changes that we made in late December during the deepest part of the correction have had a meaningful impact on our year-to-date portfolio returns. Areas that underperformed in 2018 like international stocks, U.S. small company stocks, and commodities are adding value to our portfolios. While we do not believe in market timing, there are periods when investor sentiment and stock prices get out of sync with corporate fundamentals.

With the Federal Reserve on hold for the foreseeable future, this has changed our outlook somewhat for our bond holdings. Instead of anticipating rising rates, which was the industry consensus in later 2018, the Federal Reserve has let investors know that they plan to keep rates on hold. Due to slightly weaker economic activity and recent Fed policy, bond yields have declined and bond prices have gone up. In general, this has helped our specific bond holdings and overall fixed income performance year-to-date. We will continue to monitor Fed policy and adjust our fixed income allocation as necessary.

Many investors simply compare their portfolio performance to the U.S. stock indices, which in our opinion is short-sighted. A diversified, global portfolio (40% U.S. Stocks, 15% international stocks, 5% small U.S. company stocks, 30% U.S. bonds, 10% high yield bonds) has out-performed the S&P 500 since the start of 2000. We acknowledge that international has underperformed over the last number of years, but international stocks provide great diversification and are still undervalued compared to U.S. stocks.

Buried In Paper?

Schwab has many great tools to manage what you receive by mail. If you establish online access to your Schwab account, you will be able to select what information you receive by regular mail and e-mail. If you do not have a Schwab Alliance Log In ID and Password, please visit: www.schwab.com/sa_webactivate. If you already have a Schwab Log In ID and Password, please visit: www.schwab.com/sa_gopaperless. For those that are not internet inclined, we can at least arrange for your monthly Schwab statements to be sent in a single bundle. Please contact our office for more information on statement bundling or for assistance with gaining online access to your accounts.

Cybersecurity

With so much of our lives connected to our email accounts these days, it is important to make sure that your email account is secure. Even if you have a long and complex password, it may not matter. What's important is that your password is *unique*. This is because hackers have access to huge lists of previously hacked passwords used by other people, and if your password is the same as a hacked password previously used by someone else then they can gain access to your account. SAM recommends using a password manager like LastPass to generate and save randomized, unique passwords for all your sensitive online accounts.

Inverted Yield Curve?

You may have heard about a "yield curve inversion" in the media recently. For the first time since 2007, shorter term bond yields are higher than longer-term bond yields. An inverted yield curve is a typical event in the latter stages of the economic cycle and has historically predicted United States recessions with great accuracy. The time lag between inversion and recession can be long and highly variable. In recent cycles, it ranged from as short as one year for the 1981-1982 recession to as long as three years for the 2001 recession. We are constantly monitoring interest rates in combination with other economic data. Because the majority of other economic data is not rapidly deteriorating and the fact that central banks around the world are still maintaining a low or negative interest rate policy, we believe that a recession is not imminent.

Mortgage Outlook

After the Federal Reserve's meeting on March 20, 2019 mortgage rates saw their biggest one-week drop in a decade. Citing concerns for slowing economic growth, the Fed made it official that they would likely not hike rates in 2019 and the outlook for 2020 showed only one projected rate hike. The Federal Reserve's concern about the prospects for slowing economic growth caused investor jitters to drive down mortgage rates by the largest amount in over ten years. This brings mortgage rates back to levels not seen since early 2018, which is great for housing demand. As of the writing of this article the Primary Mortgage Market Survey® shows U.S. weekly averages as of 3/28/19 at 4.06% on a 30 year fixed mortgage paying 0.5 Fees/Points.

Quarterly Quote

"Those who regularly preach doom because of government budget deficits (as I regularly did myself for many years) might note that our country's national debt has increased roughly 400-fold during the last of my 77-year periods. That's 40,000%! Suppose you had foreseen this increase and panicked at the prospect of runaway deficits and a worthless currency. To "protect" yourself, you might have eschewed stocks and opted instead to buy 3 ¼ ounces of gold with your $114.75. And what would that supposed protection have delivered? You would now have an asset worth about $4,200, less than 1% of what would have been realized from a simple unmanaged investment in American business. The magical metal was no match for the American mettle."- Warren Buffett

We sincerely appreciate your continued trust and confidence. Sending new clients our way is the best possible compliment we can receive. If you know of someone who may benefit from our service, please do not keep us a secret.

INTERESTING FACTS

The S&P 500 finished 2018 down 4.4% and the Barclays Capital Aggregate Bond Index finished flat (+0.01%). This narrowly avoided being only the 3rd calendar year in the last 93 in which both stocks and U.S. bonds finished the year with negative returns (1931 and 1969 were the other two).

76% of all U.S. businesses are one-person, self-employed entities, operating with zero additional employees (source: Census Bureau).

10% of 281 economists surveyed in February, 2019 believe the United States will be in a recession by 12/31/19. 42% of the group believe a recession will have started by 12/31/2020 (source: National Association for Business Economics).

U.S. field production of crude oil reached 12.1 million barrels per day for the week ending 2/22/19, the largest weekly total reported in the 99 years this statistic has been tracked (source: Department of Energy).