SAM NEWS

2nd Quarter Report
July 2018

Flat. So Far…….

IMPORTANT SCHWAB NOTICE

As of June 1st, Schwab is no longer issuing physical checks from client accounts at local branch offices. There are many other ways to withdraw funds from your Schwab accounts. If you have any questions about this recent change, please let us know.

INTERESTING FACTS

The U.S. unemployment rate declined to 3.8% in May. (source: Department of Labor)

Retail sales, tracked monthly in the USA, exceeded $500 billion for the first time ever in May 2018 ($502 billion). (source: Commerce Department)

The population of the United States has doubled since 1950, while the number of Americans at least age 65 has quadrupled since 1950. (source: Social Security)

Review Appointments

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

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After a spectacular 2017 stock market performance which continued into January of this year, U.S. stock prices are largely unchanged at midyear. Volatility increased during the second quarter as talk of tariffs and trade wars continued. Corporate earnings remain at all-time record levels- partly attributed to the impact of the new, lower corporate tax rates. With the economy and nearly all leading economic indicators remaining robust, stock prices are likely to find firmer footing soon. Our forecast is for moderate stock gains between now and year-end.

2nd QUARTER 2018 INVESTMENT REPORT

Stocks, as measured by the broad S&P 500 were up 3.4% for the quarter. The DOW 30 Index increased 1.2% during the second quarter, however it is still down 0.7% year-to-date. The NASDAQ Composite continued to lead all major U.S. indices rising an additional 6.3% and finishing its 8th consecutive positive quarter. The small-cap Russell 2000 gained 7.8% during the quarter and finished near a record high. International stocks represented by the MSCI EAFE Index underperformed the U.S. indices with a loss of 2.3% for the quarter and 4.5% for the first half of the year. The Barclays Aggregate Bond Index registered year-to-date losses of 1.6% as interest rates rose (interest rates and bond prices move in opposite directions).

INVESTMENT INDICES

All numbers listed are total returns and are percentage gains or losses.

	2nd Quarter	Year-to-Date	2017
Dow 30	**1.2%**	**-0.7%**	**28.1%**
S&P 500	**3.4%**	**2.6%**	**21.8%**
Nasdaq	**6.3%**	**8.8%**	**28.2%**
Russell 2000	**7.8%**	**7.7%**	**14.6%**
MSCI EAFE (Int's Stocks)	**-2.3%**	**-4.5%**	**21.8%**
Barclays Aggregate (Bonds)	**-0.2%**	**-1.6%**	**3.5%**

*****These are not the rates of return for SAM accounts, but are shown as a historical benchmark for various asset classes. SAM does not guarantee account performance. Accounts may lose value. Information taken from sources believed to be reliable, but its accuracy cannot be guaranteed.*****

SAM Outlook & SAM Strategy on the flip side

General Electric Leaves the DOW 30

General Electric was one of the original Dow Jones Industrial Average components back in 1896. GE's share price has dropped well over 50% over the last twelve months and the shares traded around $13 per share days before leaving the Dow on June 25th. Because the Dow is a price weighted index, GE had a very small impact on the index value. GE was replaced by Walgreens Boots Alliance (symbol WAG). According to S&P Dow Jones Indices, our economy is now less driven by industrial companies and Walgreens Boots Alliance is a better representation of the consumer and health care sectors of the economy.

Upcoming Stock Market Holidays

Independence Day, July 4th
Labor Day, September 3rd

Thank you for the many referrals that we have received so far this year. If you know of someone who may benefit from our service, please do not keep us a secret. There is no cost to meet for an initial consultation.

SAM OUTLOOK

Even as we inch closer to the eventual peak of the current economic cycle, our outlook is still optimistic. The "great recession" of 2007-2009 was very severe and far-reaching and we believe that because of this, the current economic expansion may last longer than previous recoveries. Sentiment is still very positive, but we do have political, trade, and regulatory risks coupled with the fact that inflation and interest rates are now officially rising. Based on all of the reading and research that we do at SAM, the chances of a recession are still remote- especially with the recent tax cuts and continued fiscal stimulus. This is the first time in decades that hefty U.S. stimulus is coming outside of a recessionary period, so we will have to wait and see what effect this has on further economic growth and timing of the next recession.

Despite a recent modest pullback in U.S. stocks, and a sharper one in international markets-reflecting both trade worries and the recent strength in the U.S. dollar- we don't believe it marks the beginning of a more severe correction. Risks of a prolonged trade dispute have risen but it's too soon to declare a trade war. Any positive resolution to the trade disputes would likely be a tailwind for equities. For now, a healthy U.S. economy is an offset to those growing worries. Threats to the current bull market have risen, and they include this being a midterm election year, which has historically been accompanied by larger-than-average swings in the market. Bottom line, risks remain but we are clearly in an ongoing bull market.

SAM STRATEGY

In general, client accounts are fully invested across all our investment strategies and are close to the maximum stock allocation allowed within each strategy. Stocks still present the best relative value at current levels- especially since bond prices are beginning to be negatively affected by rising interest rates. The largest percentage of the stock portion of our portfolios is still invested in U.S. companies, however we did increase our developed international and emerging markets allocations earlier in the year.

International stocks have not done as well as U.S. stocks year-to-date due to rising interest rates and a stronger dollar. Global growth during the long economic recovery has been led by the United States, but this may shift to international economies and stocks going forward. International stock indices have still not reached their prior 2007 peaks, while all U.S. indices have. We plan on maintaining our current position in our international holdings despite their recent underperformance.

Our outlook for bonds remains less favorable as interest rates rise. We have positioned the bond portion of client portfolios to minimize the impact of rising interest rates. This includes owning short-term and intermediate-term bonds, high yield corporate bonds, interest rate hedged bonds, and two actively managed bond mutual funds. While you may notice some slight declines in the prices of the bond holdings on your statements, you are still receiving the income that is paid by each of these investments. More importantly, these bond holdings have historically gone up in value when stock prices have declined. For our more conservative Balanced Stock and Bond and Conservative Stock and Bond strategies, bonds are an important part of reducing risk and portfolio volatility over time.