SAM NEWS

3rd Quarter Report
October 2018

Major Indices Reach Record Highs

Longest Bull Market in History

As of our last quarterly report, stocks were fairly flat at the mid-year mark. Since that time, volatility has subsided, and all major U.S. stock indices have risen to fresh all-time highs. Based on the totality of the recent fundamental economic data, the U.S. economy remains very strong. As we have said many times before in this newsletter, the economy drives corporate earnings and corporate earnings drive stock prices. In the current economic environment, the broad stock market should continue higher into the end of the year and beyond. So far, no recession in sight……

3rd QUARTER 2018 INVESTMENT REPORT

The current bull market is now more than 9 ½ years old and the S&P 500 has gained 430% (total return) since the bull market began on 3/10/2009. Investors have clearly been rewarded for staying the course and ignoring all of the doom and gloom along the way. Despite the volatility in the market so far this year, stocks are setting records. With the Federal Reserve steadily raising interest rates, bond prices have predictably begun declining.

U.S. stocks, as measured by the broad S&P 500 gained 7.7% in the third quarter. The DOW 30 Index rose 9.6%, the NASDAQ Composite added 7.1% and the small-cap Russell 2000 tacked on 3.6%. International stocks as represented by the MSCI EAFE added just 0.8%. The Barclays Aggregate Bond Index was unchanged during the quarter, but the broad index is down 1.6% for 2018.

INVESTMENT INDICES

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

	3rd Quarter	Year-to-Date
Dow 30	**9.6%**	**8.8%**
S&P 500	**7.7%**	**10.6%**
Nasdaq	**7.1%**	**16.6%**
Russell 2000	**3.6%**	**11.5%**
MSCI EAFE (Int's Stocks)	**0.8%**	**-3.8%**
Barclays Aggregate (Bonds)	**0.0%**	**-1.6%**

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

TIME FOR TAX PLANNING

It's Less Than 90 Days To Year-End! Time to start thinking about…

Tax planning: Schedule an appointment with your CPA or tax preparer.

IRA and retirement plan contributions: Be sure to fund by the IRS deadlines.

RMD's (Required Minimum Distributions) for IRA's: Charles Schwab will notify clients who are 70½ or older in 2018 of their Required Minimum Distribution (RMD) from all types of IRA accounts. The RMD must be taken this year in order to avoid severe penalties. If you have any taxable account with us, we can arrange to have the RMD amount directly transferred from your IRA to your after tax account- no hassle! Just call our office at 658-5193, toll-free 1-877-658-5193.

Upcoming Stock Market Holidays

Thanksgiving, November 22rd
Christmas, December 25th
New Years Day, January 1st

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Cryptocurrency Update

Over the past year, we have received a few curious questions from clients about Bitcoin and other cryptocurrencies. Much like precious metals, cryptocurrencies are difficult- if not impossible- for us to value. We have specifically advised clients not to speculate in cryptocurrencies because of their valuation issues and price volatility. Bitcoin peaked in December of 2017 at approximately $19,200 per coin. Today, Bitcoin is trading at $6,500…

Interesting Facts

On September 20, the number of Americans filing for unemployment benefits fell to the lowest level since November 1969.

During the 30 years ending 8/31/18, the best 12-month performance and the worst 12-month performance for the S&P 500 occurred over a single 24-month period. The worst 12-months (a total return loss of 43.3%) was the 1-year from 3/01/08 to 2/28/09 and the best 12-months (a total return gain of +53.6%) was the 1-year from 3/01/09 to 2/28/10.

An estimated 44.4% of all US individual taxpayers will legally pay zero federal income tax for tax year 2018 on their Tax Form 1040 that is due 4/15/19 (source: Tax Policy Center).

We would like to thank our clients for their continued trust and confidence and wonderful recent referrals. We have substantially expanded our client base and assets under management so far in 2018. If you know of someone who may benefit from our service, please do not keep us a secret.

SAM OUTLOOK

Our outlook remains solidly positive for the foreseeable future. Companies in the S&P 500 Index posted 25 percent year-over-year earnings per share growth during the second quarter. Lower taxes, less regulation, and increasing government spending have bolstered business and consumer confidence to multi-decade highs. This confidence has translated into increased consumer spending and business investment. These powerful tailwinds should continue to support U.S. stocks in the coming quarters.

During the quarter, the bull market became the longest in history- longer than the great bull market of the 1990's. In addition, if the current business expansion lasts through July of next year, it will be the longest expansion in the history of our country. As of this writing, it appears that the updated NAFTA agreement is moving forward. These facts are encouraging and are just a couple of highlights of the overall data set.

The US Federal Reserve (Fed) raised interest rates for the eighth time in the last three years on September 26. Despite these persistent rate increases, monetary conditions in the US remain accommodative. In fact, today's targeted fed funds rate roughly equals the Fed's preferred measure of inflation. As a result, real interest rates in the U.S. are essentially zero.

With all of this positivity, what is there to worry about? In the near term, we have the threat of trade wars and uncertainty caused by the upcoming mid-term elections, but our biggest long-term concern remains the U.S. deficit. The annual US federal deficit is fast approaching a trillion dollars. The US federal government debt burden has surpassed $21.5 trillion. Nearly 80 percent of every tax dollar the US government collects goes to pay for entitlement programs (i.e. Social Security, Medicare and Medicaid) and interest expense on that giant debt load. And, the problem is only getting worse as the American population ages and the debt burden rises.

SAM STRATEGY

We remain highly diversified and fully allocated to stocks within the limitations of each of our four main investment strategies. The core of the stock portion of our portfolios remains invested in U.S. stocks and our U.S. holdings continue to perform well and in line with their benchmarks.

In contrast, our international holdings in developed and emerging markets have hurt our year-to-date performance. Developed international stocks as measured by the MSCI EAFE Index are down 1.6%, while the S&P 500 is up over 10% so far this year. Emerging market stocks as a whole are down around 7% so far this year. While these holdings have hindered our performance in the short and intermediate term, we continue to see great value in foreign stocks.

International stocks are much less expensive on a price to earnings (P/E) ratio. For example, The S&P 500 has a current P/E ratio of 18, while developed international stocks have a P/E ratio of 14- a measurable discount to U.S. stocks. Emerging market stocks are even cheaper. Relative to developed market economies, emerging markets have higher GDP growth rates, a quickly developing middle class, growing consumer markets, more structural reform and rising populations. We will maintain our international allocation near current levels and will be rewarded when they rebound.

We continue our defensive position when it comes to our bond holdings. As expected, interest rates are steadily rising in the United States and bond prices are declining. Our goal is to own bonds that will be less affected by rising interest rates to preserve the principal and ideally collect some income from those holdings. So far this year, we are slightly ahead of our bond benchmark.