



SAM NEWS

3rd Quarter Report
October 2019

Recession Rumbles? Stocks Rebound to Near Record Highs

During the 3rd quarter, the “r” word suddenly re-appeared in the mainstream media. This was partially driven by the fact that we had an “inverted yield curve,” which essentially means that short-term interest rates were temporarily higher than long-term interest rates. An inverted yield curve has accurately predicted many previous U.S. recessions with varying lead times. By the end of the quarter, interest rates had normalized- longer rates were again higher than shorter rates. Is a recession imminent? What is our current economic outlook? What changes do we plan on making to portfolios if a recession becomes a reality? Please read our SAM Outlook and Strategy, on the reverse.

3rd QUARTER 2019 INVESTMENT REPORT

U.S. stocks, as measured by the S&P 500 rose 1.7% during the second quarter. The tech heavy Nasdaq Composite declined 0.1%, small company stocks as represented by the Russell 2000 were up 2.4%, while the DOW 30 gained 1.8% for the quarter. International stocks as measured by the MSCI EAFE Index declined 1.7%. The Barclays Capital Aggregate Bond Index rose 2.3% as the Federal Reserve cut interest rates and bond prices rose. Gold finished the quarter at \$1,465 per ounce- a gain of 14.7% so far in 2019. As a comparison, gold peaked at \$1,917 per ounce in August, 2011.

INVESTMENT INDICES

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

	3rd Quarter	YTD	2018	2017
Dow 30	1.8%	17.5%	-3.5%	28.1%
S&P 500	1.7%	20.6%	-4.4%	21.8%
Nasdaq	-0.1%	20.6%	-3.9%	28.2%
Russell 2000	2.4%	14.2%	-11.0%	14.6%
MSCI EAFE (International Stocks)	-1.7%	9.9%	-16.1%	21.8%
Barclays Aggregate (Bonds)	2.3%	8.5%	0.0%	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.

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 2019 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 28th
Friday, November 29th
Christmas, December 25th
New Years Day, January 1st

SIERRA ASSET MANAGEMENT

Serving Central California

40312 Junction Drive
PO Box 2389
Oakhurst, CA 93644

PH: 559-658-5193
Toll Free: 877-658-5193
www.SierraAM.com
Email: info@SierraAM.com

SAM Outlook & SAM Strategy on the flip side



Interesting Facts

The maximum Social Security benefit paid to a worker retiring at full retirement age in 2019 was \$2,861 per month, more than triple the \$899 per month paid 30 years ago in 1989. (source: Social Security)

The average interest rate nationwide on a 30-year fixed mortgage has dropped from 4.51% on 01/03/19 to 3.58% on 8/29/19. (source: Freddie Mac)

2019 is the 3rd year of Donald Trump's 1st 4-year presidential term. The average return for the S&P 500 during the last 23 "presidential 3rd years" has been a gain of 16.1% (total return), i.e., an average return based on data going back to 1927. The last time the S&P 500 was negative for a "presidential 3rd year" was in 1939 or 80 years ago.

The new 5G technology being installed across the U.S. is estimated to be 20 times faster (in terms of download speed) than the current 4G technology that is in place nationwide. (source: Lifewire).

Gift to charity?

There are major advantages in donating appreciated securities instead of cash. When you donate an appreciated security, you don't have to pay capital gains tax on the gain, and generally, you get a tax deduction for the full value of the security on the day it is donated. Giving appreciated securities instead of cash can save you hundreds or even thousands of dollars versus a cash gift. See your tax preparer to find out if you should take advantage of this unique way of giving.



Our outlook and strategy are always based on the most recently available economic data. Over the past few months, some of the leading economic data has weakened and we are closely monitoring those data points. The tariffs are clearly beginning to have an impact on manufacturing orders, consumer confidence, U.S. Gross Domestic Product (GDP), and most importantly corporate earnings. According to Vanguard's top economists and the St. Louis Federal Reserve, there is now a 40% chance of a recession in the next twelve months.

Going into the fourth quarter, our outlook remains slightly more cautious. So far, the tariff escalation has been moderate and has had a modest spillover to global trade. A sharp escalation in tariffs from here would cause us to reevaluate our strategy and portfolio composition. As you have seen this quarter, the major market moves have been driven largely by tariff news. Despite the volatility and heightened media hype during the quarter, U.S. stocks ended less than 2% from their all-time highs.

For only the third time since 1958, stocks are yielding more than bonds. The S&P 500 yields 1.91%- and ten-year U.S. Treasury Bonds are yielding 1.67%. This means that an investor in the S&P 500 will earn more than an investor who buys ten-year Treasuries- even if stocks go nowhere. In fact, this is true even if stock dividends do not increase over time. Historically, stock dividends have increased by 5.8% per year. This indicates that stocks remain a great long-term buy, while Treasuries- which offer a yield unlikely to even match inflation- are guaranteed to deliver meager returns.

SAM STRATEGY

In light of the recent economic data, we are prepared to make specific changes in our portfolio allocations if conditions warrant. So far, we have stayed fully invested and near the maximum stock allocation within each investment strategy. Despite the volatility and mixed economic data, staying fully invested has proven to be the best course of action and our clients have been rewarded for their patience. At this point, it is hard to remember how dire the economy and stock market felt in the 4th quarter of 2018 when stocks were down 20% from their 2018 highs.

We definitely took note of the yield curve inversion during the quarter. On average, a recession has followed an inverted yield curve by 15 months. One significant reason U.S. bond yields have dropped recently is that foreign bond yields in Europe and Japan are so much lower. In fact, the yield on over \$15 trillion in global bonds is now negative- guaranteeing holders that they will receive less than their original investment in return. This motivates international investors to purchase U.S. bonds at a higher yield, but their massive buying is driving our bond prices higher and our bond yields lower.

As always, we will continue to monitor the incoming data very closely. If the leading economic data continues to weaken, we will strategically begin to add bonds and cash to our allocations. Within the remaining stock portion of the portfolios, we would own less growth-oriented companies and shift to less economically sensitive companies. For the time being, we are staying the course, monitoring the data, and not making changes. In our opinion, a trade deal with China could rapidly change the economic outlook and stocks would likely rise substantially.

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. There is no cost to meet for an initial consultation.