

Pete's Postings!

Spring Greetings!

The calendar says it is springtime, but the temperature says otherwise. The baseball season has started and my hope is as you read this newsletter, the weather is warming, and the grass is growing!

We are already a quarter into the new year; and after more than a year without it, volatility has returned to the markets. On April 3, we had a workshop to summarize the new Tax Cuts and Jobs Act of 2017. We had a nice group brave the big snowfall and turn out for the program!

We are excited to invite you to attend our upcoming events! Please "save the date" for Thursday, June 7. We will have another "get together" at the Red Wing Golf Course. We will have an Economic Update at Noon with lunch. After, you can enjoy a lesson & round of golf on us! If you are not able to participate in the golf activities, please join us for an open house with drinks & hors d'oeuvres in at the club from 4 to 6pm.

Please also "save the date" for August 16 when we plan an Employer Workshop "lunch and learn" with an afternoon Economic Update for everyone. These events will be held at Treasure Island Resort and Casino. More details to come...

As we announced in the last newsletter, Lucas Reitan has joined our team. He is prepping for the Series 7 and 66 investment advisory exams and working to better systemize our client services! We will be sending reports to everyone with an investment advisory account to assist in the review of your portfolios.

As we do every quarter, we are monitoring the investments in our models and your accounts. We are reviewing risk and performance, making strategic changes and rebalancing two times per year.

We are here for you and are looking forward to seeing you all soon! Think spring!!

- Pete



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First Quarter 2018 Update

After a blockbuster start to 2018, equity markets have been caught in a vicious circle of trading over the quarter's last two months, with volatility and uncertainty taking center stage. While a combination of factors like solid earnings, upbeat economic data and new tax legislation have fueled some rallies, inflation fears, protectionist and anti-trade Trump policies, Washington turmoil and faster-than-expected interest rate hikes continue to weigh on equity market returns.

The year started out strong for equities, however, by quarter's-end the elongated period of rising share prices and low volatility finally ended. For the quarter, the Dow Jones Industrial Average posted a quarterly decline of more than 2.3%, snapping the longest streak of quarterly gains for the blue-chip average since an 11-quarter rally that ended in the third quarter of 1997. The S&P 500 index ended the quarter with a 1.2% quarterly fall, ending its long winning stretch that started in 2015.

Seeking Alpha reports that while the first quarter of 2018 marked the first time in nine quarters, (dating back to 3Q15), that the S&P 500 produced a negative total return. Six of the most recent quarters with a negative total return - 3Q15, 4Q12, 2Q12, 3Q11, 2Q10, 1Q09 - were followed up by a quarter with a positive total return.

The technology sector, which was helping equities advance, experienced huge swings in the first quarter. It was a favored investment sector for many investors for the last few years. A surge from several leading technology stocks and the emergence of new cutting-edge technologies also added to the strength. Given its strong fundamentals, over the last few years, the sector easily survived a couple of massive sell-offs according to FactSet data.

Investor disillusionment with technology stocks created some market declines in the second half of the quarter. The news of Facebook's data breach raised regulation concerns and seemed to take the shine away from some leading technology stocks and the broader sector. Notably, Facebook eroded about \$100 billion in market cap since the scandal unfolded in March. The US-China trade war announcements also took a heavy toll on equities and the technology sector. Tech stocks make up about one quarter of the S&P 500, so they need to be watched. *(Source: Barron's 4/2/2018)*

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Key Points

1. 2018 equity markets started strong but retreated in February and March.
2. Quarter 1 of 2018 broke long quarterly winning streaks for both the DJIA and the S&P 500.
3. The Fed raised U.S. Fed Fund rates to 1.50 - 1.75% in March and is scheduled to raise rates two more times in 2018.
4. Heightened geopolitical and inflation concerns are influencing equity returns.
5. Investors need to continue to be cautious and watchful.
6. Focus on your personal goals and call us with any concerns.

We make it a priority to keep our clients informed throughout the year. If you find you need to meet with us before your next scheduled review, please call our office and we will be glad to schedule time with you. Once again, we thank you for the opportunity to help you with your financial goals.

All Eyes on Interest Rates

As expected, in March, the Federal Reserve, now headed by Jerome Powell, raised interest rates. This sixth increase since the financial crisis was by another 0.25% bringing the new range to 1.50-1.75%. The central bank hinted at gradual hikes for this year with two more increases but turned hawkish for 2019 and 2020 citing growing confidence in the strengthening economy. As a result, some cyclical equity sectors like financials, industrials, and consumer discretionary are expected to benefit from a rising rates environment.

U.S. Federal Reserve policymakers showed, “worry over the fate of currently low inflation.” They also felt recent tax changes would provide a boost to consumer spending, according to the minutes of the U.S. central bank's policy meeting in December of 2017, which was released this quarter.

In early March, Bankrate.com reported that the current 2.9% yield on 10-year Treasuries is low by historical standards but represents an almost percentage-point jump since September, when the GOP's \$1.5 trillion tax cut package on top of an already humming economy began to look viable.

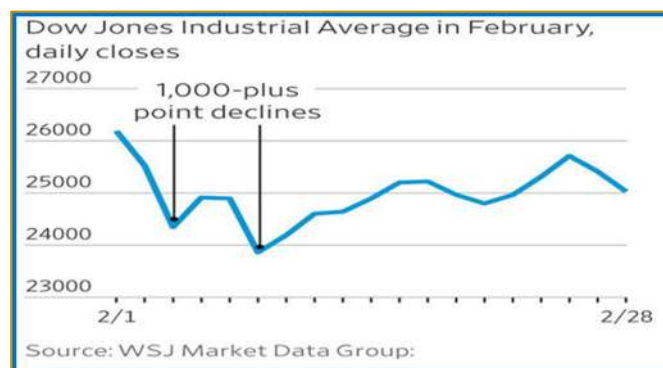
A key factor many economists are concerned with is how aggressively the Federal Reserve with a new chairperson, will raise interest rates to stop the economy from overheating. Bankrate assembled a group of expert panelists and almost 80% expect the Fed to hike rates three times this year, similar to last year. Further increases in 2019 might also be in store as the Fed looks to bump the short-term rate to a more historically normal level. The economists were split on their predictions for the 10-year Treasury yield, but 42% forecast the yield to rise to 3.5% or more by next spring. The range of forecasts ranged from 2.28% to 4.3%. *(Source: Bankrate.com 3/7/18)*

“By the latter part of 2018, markets may be anticipating another four rate hikes by the Federal Reserve in 2019 as the Tax Cuts and Jobs Act provides the economy with a significant thrust,” says Lynn Reaser, Chief Economist at Point Loma Nazarene University.

Rising interest rates brings concerns for heavily leveraged companies. Companies can withstand higher interest rates as long as economic growth is also rising with those rates. Interest rates are a key area that investors need to watch closely in 2018.

Other Concerning Factors

Despite a volatile stock market, the prospect of an international trade war and a declining dollar, top economists surveyed by Bankrate expect workers to enjoy positive economic news in 2018. Businesses will add to payrolls at a decent clip, the unemployment rate will decline and pay should rise, the economists predict. *(Source: Bankrate.com 3/7/18)*



Many analysts are not yet ready to give up on this bull market. Despite the recent volatility, many analysts think the economic backdrop remains strong for stocks. Fears of a trade war between the U.S. and China escalated this quarter following reports that the two countries were in discussions to improve U.S. access to Chinese markets. Concerns about tariffs, rising interest rates, inflation and bloated valuations have overshadowed good news like higher corporate earnings and strong economic growth, said Joe Zidle, investment strategist for Blackstone Group LP. According to him, investors have yet to embrace U.S. equities, the way they have in the late stages of other bull markets. "Investors have been unwilling to embrace this bull market, and now they want to know when it's going to end," Mr. Zidle said. "The fact that so many people think it's about to end tells me it's going to keep going for a while yet." (Source: *Wall Street Journal* 3/27/18)

A stock market correction is a 10% decline in stocks from a recent high. A correction is less severe than a bear market. A bear market is defined as when stocks decline 20% from their recent highs. According to investment firm Deutsche Bank, the stock market, on average, has a correction every 357 days, or about once a year. Many investors were especially emotional when the market corrected this quarter because they have not seen a correction since early 2016.

Stock Market Corrections	
Magnitude of Decline	Frequency of Decline
-5% or more	About 3 times per year
-10% or more	About once per year
-15% or more	About once every 2 years
-20% or more	About once every 3.5 years

(Source: *American Funds, Deutsche Bank*)

Conclusion: What Should an Investor Consider?

Market bulls always insist that bull markets don't die of old age. Nine years into an extraordinary run for U.S. stocks, it's easy to buy into the idea that the only things that can halt equity markets are a recession or the Federal Reserve.

According to The Wall Street Journal, that claim is only half right. Long periods of calm lead investors and companies to make silly assumptions, leaving them dangerously exposed to shifts in fundamentals. With the economy now appearing to be in the last phase of the cycle, in which the Fed starts worrying about too much growth rather than too little, some of the easy assumptions of recent years are starting to be challenged — and could threaten the most popular stocks. For nine years U.S. investors have had easy money, higher profit margins and mostly, rising valuations, even as the economy had its slowest recovery since World War II. (Source: *Wall Street Journal* 3/8/18)

As the chart of the Dow Jones Industrial Average daily closes in February shows, large market movements of 1% or more might become a regular event.

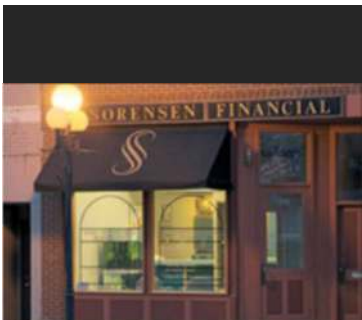
The S&P 500 moved up or down 1% or more on 23 separate occasions during the first quarter, a startling break with the precedent set in 2017 and investors may need to be more defined in their expectations. Long term investors need to resist the temptation of making emotional decisions.

Since the Great Recession, the S&P 500 has tended to produce strong returns after quarters of negative performance. Over a longer time horizon, returns have historically been positive after down quarters. Dating back to the beginning of 1927 for the S&P 500 and its predecessor indices, this market benchmark has produced positive total returns in 244 of 361 quarters (67.6% of the time). (Source: *Seeking Alpha* 4/3/18)

Proceed with CAUTION
is still the principal notion for investors.

Investors are more focused on results over time than speculators or traders are. If you are an investor, you should consider your time horizons and let them help you guide decisions. Full market risk is not appropriate for most investors and today's traditional fixed rates might not help many investors to achieve their desired goals. Most investors attempt to build a plan that includes risk awareness. Many times, this can lead to safer but lower returns. Traditionally, bonds have been used as a nice hedge against market risk, but with interest rates projected to rise, investors need to be extremely cautious.

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UPCOMING EVENTS!!

**This year, we have planned several exciting events for our clients!
Please save the date for the following events that we will be hosting this summer.
More information will follow!**

**Thursday, June 7th - Client Education & Appreciation Event - Red Wing Golf Club
Thursday, August 16th – Client Education & Appreciation Event - Treasure Island Casino**



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