

Pete's Postings!



Summer Greetings!

We are half way through 2018, one month into summer and the weather recently has been as volatile as the investment markets. The Mississippi River continues unusually high in Red Wing. This is to be expected considering all the rain we have had to date. Hopefully, we experience a drier rest of the season, so we can better enjoy the great outdoors!

Speaking of outdoors, we had a very nice group join us for our Lunch and Economic Update at the Red Wing Golf Course on June 7th. Following lunch many stayed for the chipping and putting clinic from the pro. After the clinic the group enjoyed a relaxing round of golf to practice those tips on the course. We had others join us for the open house later that afternoon.

We learned about exciting opportunities now available on our Wealth Management Platform that we are anxious to share with those we have not seen the last few weeks! Many clients are choosing to move accounts to Model Portfolios and Separately Managed Account (SMA) programs inside a Unified Managed Account (UMA). We look forward to meeting with each of you to explain why we are recommending these products and their potential advantages to your portfolio. Please contact Lucas to set an appointment with me for a review as soon as convenient!

In our last newsletter we asked you to "save the date" for our events coming up on August 16 at Treasure Island Resort and Casino. Another Lunch and Learn scheduled at 11am to 1pm that day entitled "Healthcare Delivery and Pricing: Finding Quality Care at More Affordable Prices". This Workshop is for Individuals and Employers searching for affordable high-quality health benefit coverage. We have some outstanding speakers including our local state representatives to bring us up to date on new legislation and plans for reducing costs and improving health care delivery. If you have to pay for your health care and coverage, you will not want to miss this! See the attached flyer and contact Lucas to RSVP today!

We also plan for another brief Economic Update and Open House from 3:30pm to 5:30pm at Treasure Island. Following this many will be joining us for a dinner cruise on the Treasure Island "Spirit of the Water" boat. We have room for just a few more to join us on board for a wonderful ride and excellent food on the Mississippi River from 6pm to 9pm. This is my 41st year in Insurance and Financial Services. I would not have made it this far without you so lets celebrate together! Again contact Lucas to RSVP today!

Lastly, we are finalizing our plans for the Medicare Workshops we always schedule in October. Tentative dates are October 4, 18, and 25 at the Red Wing Elks Lodge 845. Watch for more details!

We hope to see you April 16 at Treasure Island! Enjoy the summer and give us a call!!

- Pete



318 Plum Street
Red Wing, MN 55066
651.388.7103 ph
651.388.7105 fax
www.sorensenbenefits.com
www.sorensenfinancialservices.com

Peter A. Sorensen, CLU, ChFc, LUTCF, RHU
Investment Advisor Representative

Second Quarter 2018 Update

The second quarter of 2018 contained ups, downs and tariffs. Equity prices were very volatile as investors seemed to back off of many industrial heavyweights, while favoring large technology companies. Although the tensions of trade wars, tariffs, political uncertainty in the Eurozone and slowing momentum in the global economy surfaced, many indexes seemed to finish the quarter slightly higher.

While still below January 2018 highs, the S&P 500 and Dow Jones Industrial Average both rose for the quarter. The Dow ended the quarter on a sour note, losing over 300 points in the last week of trading to bring its quarterly gain to less than 1%. The S&P 500 also fell in the quarter's last week of trading, but it ended the quarter with a gain of 2.9%.

Some risk-oriented investors were rewarded, when companies like Netflix, despite its price earnings multiple of over 200 (which by definition makes it risky) rose over 30%. Jim Paulson, Chief Market Strategist at Leuthold Group warned that, "A lot of the investing public is invested in the same things." Although high flying technology companies did reward some investors, he is concerned about the risk factors and their possible price decline for investors.

Categorically, large-cap equities did not do as well as small-cap equities in the second quarter and so conservative investors with more defensive positions might have experienced lower returns.

Help us help others!
Please call us at (651) 388-7103 to
add someone's name to our
mailing list!

Key Points

1. 2018 equity markets made slight advances in Quarter 2.
2. The Bull Market is now over 3,400 calendar days old.
3. The Fed raised U.S. Fed Fund rates to 1.75 – 2.00% in June and is projected to raise rates two more times in 2018.
4. Inflation, trade wars and tariff talks are causing some uncertainty.
5. Market volatility is back and 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 are not a current client, or 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.

Barron's reported that some fund managers headed into the quarter-end feeling optimistic. "The tariffs are still dwarfed by the tax cuts, whose full positive effects have not made their way to the market", argues David Waddell, Chief Investment Strategist at Waddell and Reed. He also adds, "I do not feel that many people have really done the math on the tax cuts". (Source: Barron's 7/2/2018)

Gina Sanchez, CEO of Chantico Global, explained to CNBC that for the remainder of 2018 she's expecting beaten-down value names to fall back into favor. "Now that caution has steadily crept back into the market this year amid rising global trade tensions, political uncertainty abroad and an increasingly aggressive Federal Reserve, investors may steadily return to these names that traditionally offer 'safe' return." (Source: CNBC 7/2/2018)

For the quarter, Evercore ISI research found that the economy grew at a 4% annual rate as employment statistics looked healthy. They felt that the quarter's economic results are ones which "restrain inflation and help profit margins." (Source: Barron's 7/9/2018)

From a big picture standpoint, the bull market that began in 2009 is now over 3,400 calendar days and is the second longest ever (the 4,494 days starting in 1987 is the longest ever). Although the S & P 500 has risen slightly over 300% since March of 2009, during the 1987-2000 bull market, the S&P 500 rose over 582%. While investors have already seen a correction, market strategists remind us that, "bull markets don't die of old age." Even the savviest of investors need to have a watchful eye on risk. Short term interest rates have risen and cash equivalent yields are still historically low. As financial professionals, we try to make our best forecasts and look for a probability of success understanding we face an uncertain future. Our main goal is to continually understand our client's goals and to match those goals with the best possible solutions. (Source: Barron's 7/2/2018)

Interest Rates Are Still Center Stage

As expected, in June, the Federal Reserve headed by Jerome Powell, increased its target short-term rate to a range between 1.75% and 2.00%. This seventh increase since the financial crisis was widely expected, as policymakers continue the process of normalizing interest rates. The central bank hinted at gradual hikes for this year with two more increases but turned hawkish for 2019 and 2020.

Interest rates and bond prices have an inverse relationship. When interest rates rise, bond prices usually decrease. As interest rates rise, the decline in bond prices is most severe for longer-term bonds, compared to shorter-term and floating-rate bonds. During periods of rising interest rates, stock prices could come under some pressure. Low interest rates in the bond market can make investing in stocks a relatively more attractive option, however, as interest rates rise, and bonds offer investors higher yields, long-term investors sometimes sell their stocks and invest in bonds. While we can't predict what the future will bring, it's important that investors take appropriate steps to look for adjustments, if necessary, to prepare for any interest rate move. Interest rates continue to be a key area that investors need to watch closely in 2018.

Inflation Concerns

The inflation rate in the US increased to a six year high of 2.8% in May of 2018 from 2.5% in April, beating market forecasts of 2.7%. It is the highest inflation rate since February of 2012, mainly due to rising prices for gasoline and housing. (Source: TradingEconomics.com 5/2018)

When connecting inflation to the Fed's long term plan, Seeking Alpha reports that, "Fed Chair Jerome Powell has recently reiterated this fact. At the news conference after the last rate increase, Mr. Powell insisted that the Fed would cool things off if inflation were to persistently run above 2 percent." With unemployment decreasing a strong dollar and inflation rising, investors now need to monitor inflation rates again.

Tariffs

The Trump administration recently placed tariffs on Mexico, Canada, EU countries, and China. A recent economic report from Nationwide stated that, "Tariffs generally stifle economic growth, but even if the proposed tariffs are fully implemented, the potential drag on the U.S. economy would be much less than the expected jolt from tax reform and higher government spending." The report also noted that, "Investors focusing on possible negative impacts from tariffs should bear in mind that trade negotiations are in flux and the outcome is still uncertain; however, the tax reform and government spending packages are in place and already positively affecting the U.S. economy." Their key takeaway was that the global economic cycle is progressing as expected. Tariff and trade threats from President Trump could continue to bring uncertainty for investors, but many economists still feel that momentum of the business cycle may do more to keep economic growth going than vague threats of trade protectionism. Tariffs and their impact on equity investors are now a serious potential concern that we need to pay careful attention to moving forward. (Source: Nationwide 6/2018)

General Electric leaves the DOW

It's hard not to see GE leaving the Dow as the end of an era. Until late June, General Electric (GE), Thomas Edison's old company, was the only original Dow component left of the 30 stocks that comprise the Dow Jones Industrial Average. It was the sole survivor from a time when the Dow consisted of mostly "old school" industrial companies.

Although Thomas Edison might not have approved, after 122 years, GE has been replaced by Walgreens Boots Alliance in the Dow Jones Industrial Average. This current Dow move not only reflects GE's recent struggles, but also the changes in today's American economy. At one time, GE could have been viewed as a potential "buy and hold" investment. Buy and hold is a passive investment strategy in which an investor buys stocks and holds them for a long period regardless of fluctuations in the market. As the old saying goes, "buy and hold works...until it doesn't".

This is a great example of why the days of hold forever, might need to be revisited. For many investors, it could be helpful for a qualified professional to constantly monitor your holdings and make adjustments when it is in your best interest. When keeping holdings, managing risk is something we attempt to evaluate as we review holdings for our clients.

What Should an Investor Do?

Market volatility is expected in the investment world. Experienced investors understand that volatility is a part of investing. They also understand that more important than volatility is an investor's response to it. Sometimes volatility is a sign of heightened risk, but at other times volatility is just a normal part of investing.

Stock market volatility can unnerve even the best of investors. This is not a new concept. In 1990, Robert Shiller, a Yale professor penned one of the times most extensive studies of how market volatility affects investor behavior. Empirical studies many times show that investors who react to market volatility in the wrong manner can harm their overall investment performance. Remember, 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. Simply put, market volatility is a statistical measure of when the equity markets rise or fall sharper than usual within a short period of time.

**Proceed with CAUTION
is still the principal notion for investors.**

Market volatility is different from corrections and bear markets. Low volatility means small fluctuations and high volatility means large fluctuations. Market volatility is possibly one of the most misunderstood concepts in investing, so we thought it would be helpful to share some things to think about during volatile times.

Things to consider in Times of Market Volatility

Revisit your financial goals and objectives.

Panic is not a strategy. It's important to keep perspective when markets get choppy. A sudden drop in the market can have dramatically different implications for someone just starting their career compared to someone nearing retirement. What's important is you understand your situation and your financial plan.

Revisit your risk tolerance.

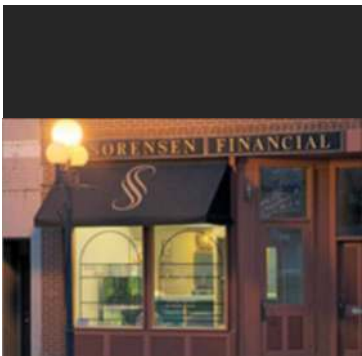
Being comfortable with your plan and your portfolio are important, but so is knowing your tolerance for risk. According to Forbes, successful investors know that volatility is part of the process on Wall Street. Instead of fearing volatility, they have learned to plan for it and actually embrace it. Volatile markets or a correction can provide a good reminder for long-term investors to reassess their holdings. (Source: Forbes 6/5/2018)

Review important paperwork

Making sure you have a will, health care proxy, and power of attorney is sometimes an uncomfortable topic, but the alternative could be messy and costly. Do you want someone else making important financial and health decisions on your behalf without any input from you? If you are missing some of these key documents, let us know at your next review. Reviewing housekeeping items, like checking beneficiaries, is not complicated, but it can potentially cause serious consequences if neglected. Trying to protect our clients is something we always try to do.

Let's focus on YOUR personal goals and Strategy.

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations.



Please share this report with others!

This year, our goal is to offer services to several other clients just like you! If you would like to share this report with a friend or colleague, please call our office at (651) 388-7103.

UPCOMING EVENTS!!

Thursday, August 16th -Treasure Island Resort and Casino

Lunch & Learn Insurance Workshop 11:00 AM – 1:00 PM

Open House 3:30 PM – 5:30 PM

Spirit of the Water 5:30 PM – 8:30 PM

Medicare Information Meetings

Tentative dates October 4, 18, and 25 at the Red Wing Elks Lodge 845.

Watch for more details!

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