Third Quarter Recap:

Global financial markets posted mixed results during the third quarter, as investors balanced heightened global trade tensions with strong economic indicators here in the United States. General market trends in the third quarter were largely an extension of what we have seen so far this year: larger-cap U.S. stocks led the way, developed international markets were up slightly, and the returns on most high quality bonds remained relatively flat.

U.S. Markets:

U.S. equities had the highest return of any developed market, briefly touching record levels in late September. Strong economic growth and corporate earnings boosted stocks, as investors seemed to shrug off escalating global trade tensions that pressured many other equity markets. Larger-cap stocks hit new highs, gaining 7.7% for the quarter, outpacing smaller-cap stocks that gained 3.6%. Growth stocks continued to outperform more value-oriented equities, a trend that has endured for some time now.

Asset Class	*3Q*	*1 Year*	*5 Years (Ann.)*
U.S. Large-Cap	*7.67%*	*17.74%*	*13.79%*
U.S. Large Growth	*9.10%*	*26.15%*	*16.36%*
U.S. Large Value	*5.59%*	*9.32%*	*10.50%*
U.S. Small Blend	*3.57%*	*15.17%*	*11.11%*
Developed Int'l Stocks	*1.23%*	*2.64%*	*4.83%*
Emerging-Markets Stocks	*-1.72%*	*-3.57%*	*3.10%*
REITs	*0.50%*	*1.79%*	*8.54%*
Investment-Grade Bonds	*0.50%*	*-1.31%*	*1.99%*
Municipal Bonds	*0.00%*	*0.35%*	*3.12%*
High-Yield Bonds	*2.44%*	*2.94%*	*5.54%*
Global Bonds	*-1.62%*	*-1.54%*	*0.20%*

Source: Morningstar Direct as of 9/30/2018

Foreign Markets:

Developed international stocks generated positive returns for the quarter, but struggled to keep pace with domestic equities. Developed markets gained just 1.2% in the quarter, while emerging market stocks fell 1.7%.

European stocks rose modestly, with returns tempered by signs of slowing economic growth and the negative impact of global trade skirmishes on Europe's trade-dependent economy. Asian stocks fared better comparatively, primarily driven by evidence of a strengthening Japanese economy.

Emerging market stocks declined, hurt by intensifying trade conflict between the U.S. and China, a strong U.S. dollar, and rising U.S. interest rates.

Fixed Income Markets:

Moving on to the bond markets, the 10-year Treasury yield rose to 3.05% at the end of the third quarter, flirting with a seven-year high. As such, the core bond index (as measured by the Barclays U.S. Aggregate Bond Index) had a negative 0.5% return in September, and was essentially flat for the third quarter.

At the end of September, the Federal Reserve raised the federal funds rate 25 basis points (0.25%) to a range of 2% to 2.25%. This hike was expected, as they continue to forge ahead with plans to gradually tighten monetary policy. The Fed signaled it would likely raise rates once more in 2018, for a total of four hikes this year.

Rising rates have certainly put pressure on bond returns as of late, but the doomsday scenario that so many pundits predicted has failed to materialize. Instead, investors have experienced minor price pressures and increasing yields on the majority of shorter and immediate term high quality bonds, which is where the bulk of our fixed income portfolios are allocated.

Even in the face of rising rates and perceived price decline, we will continue to hold fixed income in client portfolios to dampen volatility and minimize losses in our balanced allocations. Higher interest rates will likely lead to some losses in the short term, but eventually, investors will be rewarded with higher yields.

Brief Economic Update:

In the U.S., economic growth continued a nearly decade-long expansion, as second-quarter real GDP (Gross Domestic Product) increased at an annual rate of 4.2% according to the Bureau of Economic Analysis. It remains to be seen how sustainable this rate may be, but a strong labor market backed by increasing wage growth and a September 3.7%

unemployment rate (according to the Bureau of Labor Statistics) help paint a picture of overall economic health.

A Note on Diversification:

Market returns in the third quarter provided yet another example of why maintaining a diversified portfolio can feel painful at times. While investors with concentrated portfolios of large cap U.S. stocks have outperformed the global markets, we have to recognize that this has not always occurred, and will not always be the case. Both in the recent past and in the future, there will be times when U.S. stocks lag other asset classes in a diversified portfolio – be it the bond market, international stocks, or real estate investments. The hardest part, as always, is understanding why you spread your risk around, as there will always be parts of your portfolio you wish you didn't own. At the end of the day, the primary goal of diversification is to eliminate unnecessary risks by acknowledging we cannot predict the future. This in turn increases the likelihood that your portfolio will withstand a wide variety of potential market outcomes, ultimately allowing you to achieve you long term financial objectives.

Looking Forward:

The third quarter was marked by heightened global trade rhetoric and ongoing posturing on tariffs. In the U.S., politics have taken center stage as we approach the November mid-term elections, leading many to wonder if select policy decisions or election outcomes will significantly impact financial markets. This coincides with a volatile start to the fourth quarter, as markets have pulled back considerably from the recent September highs. Needless to say, there's no shortage of headlines for investors to worry about.

In times like these, we are reminded that it is our job to help clients look past these short term events, filter out the noise, and remain diligently focused on the long term financial plan that is already in place. Short term market information (including scary headlines detailing the day's "historic" market decline) is designed to play to your emotions and grab your attention, distracting you from the bigger picture. We will continue to help our clients navigate inevitable market volatility and 24/7 daily news cycles so that emotional decisions do not derail thoughtful long term plans.

We say all this to reiterate the difficulty in predicting what markets will do in the short-term, or if the economy will slip into the next recession. In our view, the greatest protection against these short term fluctuations is in the financial planning and cash flow projections we create for clients. This ensures that the money clients need in the short or intermediate term isn't subject to adverse market conditions, and allows longer-term money to weather and capitalize on temporary price decline.

Our mission is to make our clients' long term goals and objectives a reality by helping them avoid overreacting to market events both negative and positive, while maintaining a laser-focus on each client's specific planning objectives.

As always, we appreciate your confidence and welcome questions about your individual portfolio or financial situation.

-We thank you for your continued support!