THIRD QUARTER CLIENT LETTER

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Commentary below the return table, enjoy!

% Return as of 09/30/2019

Equity Indexes	**3rd Q**	**YTD**	**3-Yr**
S&P 500	1.7	20.6	13.4
Russell 2500	-1.3	17.7	9.5
MSCI EAFE	-1.1	12.8	6.5
Emerging Market	-4.2	5.9	6.0
Wilshire REIT	7.9	27.2	7.2
Bond Indexes			
TIPS	1.3	7.6	2.2
Aggregate	2.3	8.5	2.9
Government	2.4	7.7	2.3
Mortgages	1.4	5.6	2.3
Investment Corporate	3.0	13.2	4.5
Long Corporate	5.6	22.3	6.5
Corporate High-Yield	1.3	11.4	6.1
Municipals	1.6	6.7	3.2
Cash Equivalents			

3-Month T-Bill	0.6	1.8	1.5
Consumer Price Index	0.4	1.4	2.1

The first half of 2019 brought good news to investors. The economy was strong. Unemployment was lower than it had been in decades and interest rates were low. This brought strong returns for both stocks and bonds. Life was good.

As we entered the second half of the year, there were lingering concerns. One was the continuing trade dispute with China. Fair and open trade is important for businesses, and this uncertainty concerned investors. Barriers to trade, like tariffs, can result in sales impacts and planning difficulties for some businesses. Because the discussions with China were turbulent over many months, investors began to worry about the outcome.

Interest rate movements were also on the minds of investors. In August, the 10-year Treasury yield dropped below that of the two-year Treasury. When this occurs, it is called an inverted yield curve. The financial media reported the historic association of this phenomenon with periods of economic recession. While the relationship between these interest rate movements and recessions are both tentative and subject to interpretation, it wasn't long before predictions of an eminent recession were seemingly everywhere.

These developments were enough to set off bouts of volatility. The S&P 500 posted moves of greater than 1% in 11 of the 22 trading days in August. In addition, there were three drops of over 2.6%, including one that would be the worst of 2019 through the end of the third quarter.

As is often the case, the sell-first, ask-later reaction was not the best decision for investors. By the end of August, the Chinese Foreign Ministry was calling the trade talks "effective communications" and the yield curve was no longer inverted. The markets recovered and ended the third quarter mixed to higher. This shows the peril of investing long-term capital with a short-term outlook.

Domestic Equities: Through all the drama, large domestic stocks turned in a small advance. The S&P 500 managed a modest 1.7% gain and turned in an impressive 20.6% total return for the calendar year. Smaller stocks also recovered from weakness in August, but shed a modest 1.3% for the quarter. During the same period, smaller domestic stocks jumped to a 17.7% gain.

International Equities: International stocks were buffeted by issues of their own in the third quarter. Continued sluggish economic growth and the seemingly endless Brexit talks were among investor concerns. As in the U.S., mid-quarter losses were pared. The MSCI EAFE index, a measure of large companies in developed markets, edged down 1.1% for the quarter. However, calendar year results are still strong with a 12.8% gain.

Given the trade tensions between the U.S. and China, it isn't surprising emerging market equities came under pressure. While there are 26 emerging markets in the MSCI Emerging Markets Index, China represents about a third of the total index. Amid the issues surrounding the trade talks, the index dropped 4.2% for the quarter, but is still up 5.9% for 2019.

Fixed-Income: In 2018, bond performance was hampered by the broadly held expectation of strong growth and higher rates. 2019 has seen a reversal of some of those expectations. The Fed has steadily raised rates nine times since 2015. Then in 2019, they suddenly changed course. Fearing rising rates and other factors were slowing the economy too quickly, the Fed has cut the Fed Fund Rate twice during the calendar year.

The falling rates have led to a strong year for bonds. The Barclays Aggregate, a measure of the total bond market, rose 2.3% for the quarter and is up 8.5% through third quarter. In the bond world, this is quite a return. Other bonds also performed well. Municipal and corporate bonds turned in strong results for the quarter and calendar year.

We are happy to see the markets perform so strongly this year. Markets have suffered periodic setbacks as they have in most years. We would not be surprised if volatility returns - that is just a part of investing.

With all the swings in the market and conflicting predictions, even the most disciplined investors can sometimes feel overwhelmed. Noted Austrian author and business consultant, Peter Drucker, once said, “The best way to predict the future is to create it.” We can help with that.

We can’t predict when a trade agreement might be reached or when a recession might come. We can, however, create a plan and an informed portfolio that anticipates volatility and seeks to control the effects on your future. That is key to our stewardship of capital approach.

Of course, good communication is key to the success of our plan. We are always happy to hear from you.

Source of data – The Investment Company Institute, Barclays Aggregate, Morningstar, Wall Street Journal, Bloomberg, Reuters, Dow Jones Newswires, American Funds, MSCI, S&P Index, The Federal Reserve. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Russell 2500 Index measures the performance of the 2,500 smallest companies (19% of total capitalization) in the Russell 3000 index. The S&P 500 index measures the performance of 500 stocks generally considered representative of the overall market. The Wilshire REIT Index is designed to offer a market-based index that is more reflective of real estate held by pension funds.

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