



QUARTERLY NEWSLETTER [1Q 2019]

Positives:

Big Stock Market Rebound. After their worst year since the financial crisis, US stocks posted blockbuster gains in the first quarter, pushing the S&P 500 index to its best three-month start to a year since 1998, up +13.6%. Tech stocks bounced back after a miserable December, with the tech-heavy NASDAQ Composite rising +16.8%. Mid-sized and small company stocks outperformed most large caps, with the Russell Mid Cap index up +16.5% and Russell 2000 small cap index gaining +14.6%.

Most Investment Assets Had Gains In 1Q19. The quarter's strong performance was felt in just about every investment asset class. International stocks had smaller gains than US stocks, slightly dampened by economic concerns and ongoing trade tension, but still had a nice quarter. Developed markets, seen in the MSCI EAFE index, rose +10.0% while emerging markets, measured by the MSCI Emerging Markets index, were up +9.9%. Real estate, measured by the Dow Jones US REIT index, jumped +15.7% and commodity prices, seen in the Bloomberg Commodity index, added +6.3%. High yield bonds led the way for fixed income, as the Barclays US Corporate High Yield index jumped +7.3%. Investment grade bonds of all types, measured by the Barclays US Aggregate Bond Index, were quieter but still up a solid +2.9%, as the Fed held interest rates steady.

Economic Conditions Still Solid. While first quarter GDP growth is expected to be lower than the past few quarters, due to the month-long government shutdown, most economists see the US already moving past that episode. Strong March jobs growth and multiple data revisions have improved the 1Q outlook. Despite much press about the minor inversion of the bond yield curve, when short term rates exceed long term rates, this does not mean that a recession is close at hand. Even with a more obvious yield curve inversion, recession usually does not happen until at least a year later and currently seems to be unlikely with unemployment at record lows.

Negatives:

1Q19 Market Rally Might Be Too Much Too Soon. While equity investors may have recouped most of their fourth quarter losses, according to JPMorgan they should question whether this quarter's rally was built on sand rather than rock. 1Q gains were mostly driven by multiple expansion (increased price-to-earnings ratios), rather than higher earnings, suggesting that investors may be too optimistic about a US-China trade resolution and too excited about the Federal Reserve's decision to pause its campaign to raise interest rates.

Corporate Earnings Growth Expected To Slow In 2019. After earnings growth for S&P 500 companies of over 20% each of the first three quarters of 2018, compared to the same quarter in 2017, this year-over-year growth slowed to single digits in 4Q18. Many market observers are now predicting that earnings growth for the first two quarters of 2019 will be just over break-even, or even negative, as the impact of large corporate tax cuts starts to fade. With global economic growth starting to slow down, this potential "earnings recession" may keep investors on edge even if this does not necessarily portend an economic recession.

What We Are Doing For You:

Keeping An Even Keel. As we noted in last quarter's newsletter, market volatility and media headlines are no reason to lose focus on your long-term financial goals or jump out of the market. Similarly, this quarter's huge market rally is no reason to become overly optimistic or to become bearish "because the market can't possibly go higher this year". We continue to manage your accounts in response to what we can see in front of us, while maintaining the balanced, long-term approach we have always followed.

On a personal note

Bernie The family enjoyed a spring break skiing on Mt. Bachelor in Oregon, especially because they caught a couple of Blue Bird weather days. Jenny applied and was accepted to the University of Oregon, where she will begin her Masters in Applied Physics, with a concentration in Optics, in June. She is extremely excited as U of O's program was her first choice. Meanwhile, she will miss her boyfriend who will remain at Cal Poly to pursue his Masters Degree. Dad has promised all the frequent flier miles he can spare to make sure they have the ability to see each other while schooling apart.

Damien There was some big news out of the Couture household this past quarter. Damien's wife Lynn retired! Yes, after 25 years of service as a Deputy District Attorney prosecutor at the Contra Costa County District Attorney's Office Lynn decided to call it quits. She is not sure what comes next and if she is done working for good but is looking forward to some down time at home with the dogs. One thing for sure is that Damien will have to keep working!

Debbie In early April, Debbie and Dave enjoyed time with her sister's family in Lake Tahoe. They skied Heavenly and Kirkwood together and when they weren't on the slopes they played games like "Risk" and put together a 1000 piece puzzle. In March Debbie completed another 31 mile trail marathon in Marin. She is just starting preparations for a 33 mile trail run event along the Tahoe Rim Trail in July. The training will involve a few trips to Lake Tahoe to check out parts of the actual course and to see what it is like to run at that altitude. It is never bad to have excuses to get to the mountains more often.

Zack With the better weather Zack is enjoying the outdoors to its fullest! Whether it's camping, skiing, golf, or barbecuing, Zack will take any excuse to be outdoors. In May Zack is going on his first trip overseas to Europe. He is going to visit England and Ireland. He is nervous because he has never been on a trip so far away from home, but is excited for the new adventure!

*We appreciate your continued trust and confidence. Do you have any questions or concerns?
Please feel free to contact us any time.*



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Russell 2000 Index - The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. Russell Mid Cap Index - The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

S&P 500 - A capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. MSCI EAFE - Designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. MSCI Emerging Markets - Designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index. Barclays U.S. Corporate High Yield: The U.S. Corporate High-Yield Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. BarCap U.S. Aggregate Bond - The Capital U.S. Aggregate Bond Index, which used to be called the 'Lehman Aggregate Bond Index', is a broad based index, maintained by Barclays Capital, and it often used to represent investment grade bonds being traded in the US. Barclays Capital (BarCap) U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million.

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