

13919 Quail Pointe Drive • Oklahoma City, OK 73134-1004  
405.848.4646 Tel. • 405.608.0389 Fax • md@capfinancial.com

# CAPSTONE PERSPECTIVE

Michael Dunham, CFP®, CPC, QPFC, CRPC  
Capstone Financial Group, Inc.

## Thank You!!!

I'd like to offer a big thank you for your patience during our recent practice upgrades. We are already experiencing a big improvement in how we can provide service to our clients and are so happy we embarked on these changes last year. Our change of primary custodian to Charles Schwab & Co. Inc. is nearing completion. We are now focusing on our portfolio management system, Black Diamond and our risk alignment technology, Riskalyze. The Black Diamond system elevates our service to you and allows for the client portal and document vault among other benefits. Riskalyze has revolutionized the process of determining a client's risk tolerance and provides tools that help us make sure we are structuring your investments in a manner consistent with your tolerance for risk and your central objectives.



## The Markets and the Economy-2<sup>nd</sup> Quarter of 2019

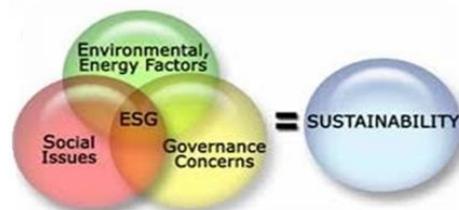
The S&P 500 index of large domestic companies increased 4.3% for the quarter and has increased 18.5% so far this year. The best performing sector of the stock market was materials, up 6.3% for the quarter and 17.3% for the year. Technology is the best performing sector for the year, up 27.1% and was up 6.1% for the quarter. The price/earnings ratio of the index stands at 16.7 times annual earnings. This is slightly higher than the 25-year average P/E of 16.19 times. So, while several sectors may seem expensive, the overall market is valued roughly equal to the 25-year average.

The domestic economy is doing well. The Gross Domestic Product increased 3.2% year-over-year. The 3.6% unemployment rate is the lowest since 1969 and is well below the 50-year average of 6.2%. Household debt service is 9.9% of income, the lowest level since the 1980's and well below the peak in 2007.

Interest rates remain low and have decreased this year. The bellwether ten-year U.S. Treasury bond yields 2.00% while the 30-year Treasury yields 2.52%. The Bloomberg Barclays Aggregate Bond index is an index of the "entire" bond market. The yield of this index is 2.49% and the duration is 5.7 years.

## ESG Investing

ESG integration simply means an investor integrates environmental, social and governance factors into the investment selection process along with traditional research methods. I've paid attention to what we originally called socially responsible investing for some time. I've ramped up this process as better tools have evolved in recent years. Research has shown ESG investing can reduce portfolio risk and generate superior investment returns. The cherry on top is we can feel good about the companies we own.



**Environmental.** Factors in this category include company policy and actions regarding water issues, climate change, greenhouse gas, carbon footprint, renewable energy and recycling. **Social.** The factors in this category are people-related and include company culture and issues that impact employees, customers, consumers, and suppliers. Examples include employee treatment, engagement, training, safety, diversity and inclusion, ethical supply chain sourcing, company mission, consumer friendliness and company stance on social justice issues. **Governance.** Factors in this category include how company senior management and directors relate to different stakeholders, how the business is run and whether the corporate incentives align with the business's success. Topics

include executive compensation, golden parachutes, diversity of senior management and directors, proxy access, separation of Chairman and CEO positions, majority vs. plurality voting for directors, dual or multiple-class stock structures, transparency in communicating with shareholders and the history of shareholder suits.

In graduate school, I was trained in the Friedman doctrine. Famed Economist Milton Friedman argued a company's only social responsibility is to make money for shareholders. Dr. Friedman argued positive social benefits would naturally evolve from a healthy and profitable company and unprofitable companies have negative effects on society. My wife Susan and I traveled to South Africa last year and witnessed first-hand the terrible and continuing effects of Apartheid. Many consider the anti-apartheid movement of the 70's as the true beginning of ESG investing as investors shunned South African companies and those connected in some way to Apartheid. We will continue to integrate ESG factors into our traditional methods of research to strive to increase returns, reduce risk and feel good about the investments we own.

## The Roth IRA



William Victor Roth, senator from Delaware, was elected to Congress in 1971 and spent much of his 30 years in Congress fighting for tax reform and tax reduction. His biggest victory and the account named after him, the Roth IRA, was passed by Congress as part of the Taxpayer Relief Act of 1997. The earnings on amounts contributed grow on a tax-free basis if distributions are made after 59 ½ and after the account has been open for five years or more. This is real tax avoidance.

Far too many people think they don't qualify for a Roth. If you have earned income and are under 70 ½, you can have a Roth, one way or another. If you earn more than \$122,000 (single) or \$193,000 (joint), your ability to make Roth contributions directly is restricted. If you earn above these amounts, you can do a "back-door" Roth by making non-deductible contributions to a traditional IRA then converting the IRA to a Roth. I've done this myself for some time. Contributions to a traditional IRA are no longer available after age 70 ½. Please call me if you have any questions about the details of the Roth IRA or need help with one. It's one of the few ways to achieve true income tax avoidance and a great way to save for retirement and, importantly, legacy objectives.

## A Note about Cannabis

The cannabis plant has been used for millennia for a wide variety of things. The fact that it's been illegal in the United States has severely stunted scientific research on the plant. There is still a lot of research to be done and, unbelievably, it is still challenging to do so in the United States. I believe that there are important uses for various cannabis-based compounds.

The interest in investing in marijuana related companies is high. Pot is legal nationwide in Canada and many of the "conservative" investment opportunities are Canadian companies. The motherlode for cannabis investors would be the U.S. Government legalization of the plant for recreational use. I think overly optimistic expectations regarding federal legalization are baked into current stock prices. I personally feel that the prospects for recreational legalization of pot by the Federal Government are more remote than the market currently believes. MADD (Mothers Against Drunk Driving) will have a lot to say about it and who doesn't listen to their mother? If I am right, most marijuana stocks seem overvalued. I do think there will be opportunities in this market for those that want to pursue them, but the time may not be right. It is important to consider ESG factors in the selection of any investment. Some people will want to avoid investments in this sector for moral, ethical or possibly ESG reasons and that is just fine.



We own a true drug company that specializes in FDA-approved products made from cannabis. GW Pharmaceuticals has the only FDA approved, cannabis-based drug. The drug has shown astonishing success in treating childhood epilepsy and has provided life changing benefits for families dealing with this disease. I am enthusiastic about the true medical uses of cannabis-based products for the long-term. My current trepidation regarding cannabis investing relates to the current state of euphoria and my view that Federal legalization is not as close or certain as many currently believe.

**Thanks for your business!**

**Capstone Financial Group, Inc. is a registered investment advisor.**