



Private Capital Group Q2 2019 Review

Good morning!

We can hardly believe that 2019 is already halfway behind us, and we certainly hope your summer is off to a good start. As we head into the third quarter of the year, we can't help but think that if only we could lock in the 2019 financial results right now, everyone would likely be quite happy. Domestic and international stocks are up significantly, and the bond market has experienced significant gains as well (see chart below for full details). The Federal Government has indicated a reversal from increasing interest rates to decreasing rates, which was met with a market upswing in both stocks and bonds. Even though global trade tariffs, geopolitical tensions, the Brexit conflict, and not to mention presidential tweets, are daily concerns, the global markets have been positively resilient. The current market expansion is officially the longest bull market on record; however, from a return standpoint, this current market expansion still lags the bull market of the 1990s. Corporate earnings growth remains positive supported by strong balance sheets. Having said all of this, there is a consensus that increased volatility is on the horizon, which, as we know, can be disconcerting. We want to reiterate that our doors are open to you at any time to talk.

Each day, we strive to bring the full breadth of our commitment and expertise into stewarding your capital and helping you meet your goals for a secure financial future. As always, we look forward to hearing from you, and we welcome any opportunity to discuss or share our thoughts on recent market events or your own personal financial strategy and goals.

Second Quarter 2019: Market Update

Financial Market	Q2 2019	YTD 2019
S&P 500 (Domestic Stocks)	4.30%	18.54%
EAFE (International Stocks)	3.68%	14.03%
U.S. Government / Credit Intermediate Bonds	2.65%	4.97%

Our Research

Private Capital Group has over 100 years of combined experience in wealth management, but we are never content to simply rest on our own knowledge and expertise. We are constantly working to advance the depth and reach of our organization's knowledge to bring you the most informed and data-driven financial strategies possible.

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For over fifteen years, Private Capital Group has partnered with PMC, a leading financial research organization whose three-prong investment philosophy centers on 1) asset allocation, 2) investment selection and monitoring, and 3) portfolio construction and rebalancing. PMC's research capabilities allow us a 360° view of the global markets to ensure that your financial strategy is driven by high quality data that leverages a full range of investment vehicles (separately managed accounts, ETFs, mutual funds, liquid alternatives) to meet your specific needs. We make research a top priority at Private Capital Group, and we are confident that our access to financial information and analysis, powered by PMC's best-in-class research, will deliver very rewarding, risk-adjusted, long-term investment results.

Behavioral Finance

Behavioral Finance has been the talk of the office recently; and though there are a great many innovative psychological insights constantly being uncovered, one thing has always remained constant: effective financial strategy is only as strong as our partnership, and it is your continued trust and collaboration that makes everything possible. We are truly grateful to work by your side towards your financial goals. And in that spirit of gratitude, we are excited to share some key takeaways on one of our favorite topics: Behavioral Finance.

Common Missteps in Behavioral Finance

#1: Envy and Regret

We all tend to kick ourselves when we feel like we've missed out on a great opportunity. We start thinking about all the "what ifs?" and doubting our own strategic plans when faced with someone else's successes. Regret is a powerful and insidious emotion that can derail seasoned investors and world-class athletes alike.

One scientific study looked at Olympic medal winners and concluded that bronze medalists were happier than silver medalists. On the surface, this doesn't make any sense. A silver medal is the better outcome. But when we examine the psychological underpinnings, we can see how a silver medalist's happiness might be clouded by the regret of being so close and missing out on the gold, whereas the bronze medalist feels the happiness (and relief!) of having managed to win a medal at all.

We can draw some parallels from this example to a well-diversified portfolio, which, while it has a historical record of success, also offers us many opportunities to experience regret. Diversification means that when domestic stocks take a huge upswing, we might find our own portfolio trailing behind on returns. On the flip side, when domestic stocks are on the decline, we still lose money, which doesn't feel good either. A diversified portfolio can make us feel like we're never winning big, which can lead to a feeling that surely we must be missing out. But the bottom line is that regret and envy never win - if you add up all of these periods, the diversified portfolio is the real consistent performer. It can win even if you never feel like you're winning.



#2: Action Bias

In most areas of our lives, a swift and decisive reaction can save us a world of problems down the line. So, it's no small wonder that the instinct to react is hard to curb when it comes to our finances. Though we all know that market fluctuations are a normal part of any investment strategy, large market declines are troubling to most investors because they frequently feel random and happen quickly.

The natural human inclination is to take action to fix our problems, and when it comes to a swift market decline, we can be tempted into panic selling only to miss out on the upside when the market recovers. Understanding and expecting this "action bias" to kick in during emotional times in the markets can help us avoid reactionary and short-sighted decision making and stick to our long-term strategy. Remember, stock returns rarely happen evenly!

#3: Loss Avoidance

The pain of watching the value of our portfolio decline is deeply unpleasant, and we are biologically wired to try to avoid painful and unpleasant things. Thousands of years ago, this instinct kept us safe from predators, but in the world of our financial strategies, it can cloud our logic.

Imagine seeing your portfolio climb from \$5 million to \$7 million in a year. Feels pretty great! Now, imagine seeing that \$7 million go down to \$6 million in the following year. A million dollars lost! We can imagine feeling some pain at that outcome, and it is that very distress that distracts us from seeing that we've still increased our portfolio's overall value by \$1 million! In this example, we've gone from \$5 million to \$6 million, a 20% return in just two years - that's the kind of result that we'd all love to see.

Don't let fear of loss drive your investment decisions. We can't predict when the best days will be, so staying invested is often the best strategy. Historic performance tells us that it's all about time *in* the market, and not about *timing* the market. If we look to historic performance, a balanced portfolio of global stocks has been likely to be worth more after a decade, and even more likely to increase in value over the course of two or three decades.

Private Capital Group's strategies and dedication to investment management are aligned with that same long-term vision. We certainly feel that understanding behavioral finance can lead us to a clearer view of what is really most important. We appreciate the trust that you place in us, and we strive to earn and grow that trust each and every day. Thank you again for being a valued client, and we look forward to speaking with you soon.

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