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Laraway
FINANCIAL ADVISORS, INC.

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THE LARAWAY REPORT

Five Predictions for the END OF 2018

by Steven A. Laraway, J.D., CPA®, CFP®

1. **ECONOMIC GROWTH** – We expect the economy to continue growing (in spite of apparent trade wars). A reasonable growth rate for GDP would be 3%, something we could only have dreamed of 18 months ago. This growth will be largely driven by strength in the labor market, increasing capital expenditures and fiscal stimulus from the tax cuts.
2. **INTEREST RATES** – There is a 99% chance that interest rates will be higher at year end than they are today. Currently FED funds are at 2.00%. We anticipate by year end 2018 those rates will be at least 2.50% and quite possibly 2.75%. This is due largely by the Federal Reserves concern over rising inflation, due largely to the strength in the labor market. It is also likely that the 10 year Treasury yield will be more than 3.00%.
3. **STOCK RETURNS WILL BEAT BOND RETURNS** – Recent returns for the S & P 500 (as of mid-June) have been in the 4% range while the Barclays U. S. Aggregate Bond Index has been down 2.00% (according to Morningstar and Bloomberg). This 6% difference will be hard to make up and market volatility is likely to exacerbate the situation. However, in a rising rate environment, like we currently have, bond returns usually suffer. In an economic growth scenario stocks hold their own.
4. **UNEMPLOYMENT** – Unemployment will continue to fall. Currently unemployment is in the 3.8% range – far below normal rates. Because of the tight labor market we expect those rates to continue to drop. The concern here would be the impact low unemployment has on wage pressure. A recent Bureau of Labor Statistics study suggested that wage rates would likely reach 3.00% growth by year end. This certainly would have an inflationary effect.
5. **REPUBLICANS WILL RETAIN THE SENATE BUT LOSE THE HOUSE** – Currently the Senate is split 51-49. The Senate races have 35 seats up this year. Of those 35 seats 26 are currently held by Democrats. In order to win back the majority the Democrats must win 28 of the 35 seats, a daunting task. For this reason the Republicans are likely to retain control of the Senate. In the House a party needs 218 seats to have a majority. Currently the Republicans hold 235 seats. Real Clear Politics believes there are 34 "toss up" seats all but 4 which are Republican seats. If the Democrats take 21 of those seats (something quite doable) they take back the House. I believe Speaker Paul Ryan saw this potentiality coming and chose not to run because of it.

THERE YOU HAVE IT MY 5 PREDICTIONS FOR YEAR END 2018.

These are the opinions of Steven A. Laraway and not necessarily those of Cambridge, and for informational purposes only, and should not be construed or acted upon as individualized investment advice.

The Flattening of the Yield Curve

Why are Investors and economists getting nervou

by Chris Wayne, AIF®

What is the yield curve, and why is the financial media writing about it? Here is a brief explanation, starting with a clarification.

A yield curve is really an X-Y graph projecting expected rates of return for equivalent-quality bonds with different maturity dates. But it is not just any yield curve that matters. When investors, commentators, and economists talk about "the yield curve," they are talking about the graph plotting the interest rates of Treasuries: 3-month, 2-year, 5-year, 10-year, and 30-year notes. The "curve" is the line connecting their projected future yields. This Treasury yields snapshot is authoritatively referred to as: "the yield curve."[1,2]

The yield curve normally slopes upward. (Think "rise over run.") In other words, the projected yields on the short-term Treasuries (at the left of the X-Y graph) are small compared to the projected returns on the 10-year and 30-year Treasuries.[2]

When the economy is booming, the slope of the yield curve is often steep. A thriving economy typically has significant inflation, and when investors see rising inflation, they assume the Federal Reserve will start raising interest rates. That belief leaves them cold on longer-term bonds, so the prices of those bonds begin to fall, and their yields correspondingly rise.[2]

The yield curve usually flattens when the Fed tightens. It has been flattening lately, and some economists wonder if it will invert. When the yield curve inverts, interest rates on short-term Treasuries exceed interest rates on longer-term Treasuries.[2,3]

Inverted yield curves are strongly correlated with recessions. In fact, every recession America has experienced in the last 50 years has been preceded by an inverted yield curve. Three times in the 1950s, however, an inverted yield curve failed to presage a downturn.[2,3]

Right now, the 10s-2s gap is being closely watched. This is the difference between 10-year and 2-year Treasury yields. It has been steadily declining since December 2015 (when the Fed began tightening), and it narrowed to less than 0.5% this spring.[2]

continued on next page

Has Your Investment Strategy Changed?

by James F. Schmitz

Let's face it, we're all getting older, like it or not. Two key components of an investment strategy are time horizon and risk tolerance.

So when do you plan on withdrawing money from your investments? Once you begin taking distributions, how long do you need those funds to last?

When considering your risk tolerance start by accessing your knowledge of investments, do you feel you have a good understanding, in general. What investments do you currently own, stocks, bonds, mutual funds? If the markets go down, what would you do, how would you feel? What is your best-case and worst-case scenarios that you feel comfortable with your investments?

Keep in mind that it's important to periodically review your investment strategy to make sure it continues to align with your goals.

us about Treasury yields?

Looking back over the last half-century, the 10s-2s gap has slimmed to less than 0.5% five other times, with an inversion of the yield curve – and a recession – following each time. Those recessions took time to arrive, though. On average, they began nearly two years after the yield curve inverted.[2]

Wall Street analysts have noticed a relationship between bear markets and recessions – the former tends to herald the latter. As some study the flattening yield curve, they not only see a recession risk, but an accompanying risk of a stock market downturn, as well.[2]

Could their fears be overblown? As MarketWatch noted, the flattening yield curve has been promoted by pension funds buying up greater quantities of zero-coupon Treasuries. The Fed, too, may have affected things due to its quantitative easing and ongoing forward guidance.[4]

Is a flatter yield curve a new normal, as former Fed chair Janet Yellen argued in 2017? She felt the latest gradual flattening was actually a product of a changing relationship between the yield curve and the business cycle. If that is correct, investors could worry a little less about the Fed's determination to maintain its pace of rate hikes. (Its latest dot-plot projects four interest rate increases in 2018.) The New York Fed recently put the chance of a 2019 recession based on the slope of the yield curve at 11%; in comparison, the chance was 40% on the eve of the Great Recession.[3,5]

If the flattening of the yield curve concerns you, you may want to take the time to consult an investment professional and work on a strategy to contend with the possibility of a recession or market downturn.

Citations.
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4 - marketwatch.com/story/how-pension-funds-could-be-muddying-the-predictive-power-of-this-recession-indicator-2018-06-13 [6/13/18]
5 - bloomberg.com/news/articles/2018-06-13/fed-raises-rates-officials-boost-outlook-to-four-hikes-in-2018 [6/13/18]

Dale Miller, Retiree

by Kimberly M. Foster, ChFC

re·tire·ment 1. the action or fact of leaving one's job and ceasing to work. Dale Miller, Client Relations Administrator retired from the firm June 1, 2018. Dale managed a lot of the behind-the-scenes managing of accounts, working hand-in-hand with the firm's financial planners to ensure that client communication and account maintenance are optimal. Dale quietly passed the torch on to Jennifer Lesmeister, Client Relations Coordinator. Dale is looking forward to travel, travel, and more travel with his wife Carol a retired elementary music teacher. The crew could not be happier for Dale. A couple things you may not know about Dale: Dale is the human Google but faster; he could recall artists and songs from most any music genre, in a blink of an eye; pull up facts of past and current U.S. presidents; and take us a step back in time with his knowledge of U.S. history. One thing we know for sure is Dale has left the building.

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Investment Performance Through June 30, 2018

Category	3 Months	YTD	1 Year	5 Year
MORNINGSTAR				
Large Cap Value	1.55%	-0.99%	9.18%	9.90%
Large Cap Blend	2.59%	1.50%	12.74%	11.62%
Large Cap Growth	5.13%	7.54%	20.69%	14.31%
Mid Cap Value	2.50%	0.07%	8.81%	10.01%
Mid Cap Blend	3.01%	2.02%	11.70%	10.39%
Mid Cap Growth	4.25%	6.49%	18.40%	12.39%
Small Cap Value	6.58%	3.69%	12.69%	9.78%
Small Cap Blend	6.15%	5.08%	14.55%	10.97%
Small Cap Growth	8.48%	10.96%	22.81%	12.73%
Foreign	-0.38%	-1.48%	5.40%	5.06%
Govt. Bonds (Interm.)	0.03%	-1.13%	-0.91%	1.37%
Corp. Bonds (Interm.)	-0.24%	-1.55%	-0.47%	2.22%

Return information is provided by Morningstar. Morningstar style box returns and indices are unmanaged, cannot be invested into directly and return figures do not include any fees or charges. Returns are shown for illustrative purposes only and are not representative of actual or past performance of any particular investment. The information contained in this quarterly update is derived from sources believed to be accurate. You should discuss any legal, tax, or financial matters with the appropriate professional. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Diversification and asset allocation strategies do not assure profit or protect against loss in a generally declining market.

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