



## QUARTERLY NEWSLETTER [2Q 2018]

### Positives:

**US Stocks Rebounded In Second Quarter.** After the March market correction, US stocks more than recovered their earlier losses to move into the black for 2018. Gains were fueled by solid economic data and strong corporate earnings, as investors tried to shake off their worries about tariffs and a growing trade war. Energy was the strongest sector, as oil prices and energy company stocks posted double-digit gains.

**Technology And Small Cap Stocks Are Shining Stars In 2018.** The Russell 2000 small cap stock index, whose company holdings are more domestically focused and less subject to a strong US dollar impact, led all indices in 2Q with a +7.8% gain and is now up +7.7% YTD. Technology stocks continue to find enthusiastic investor support given their strong revenue and earnings growth, with the tech-heavy NASDAQ index pushing to a new all-time high in June with a +6.6% quarterly gain and leads all markets YTD with its +9.4% advance.

### Negatives:

**US Stock Gains Reveal Narrow Market Breadth.** The S&P 500 rose +3.4% in 2Q to offset the 1Q loss and reach a +2.6% gain for 2018. Many analysts are concerned, though, that these gains were driven solely by the so-called FAANG large technology stocks. In total, these stocks have generated 99% of the year's S&P 500 gain, meaning that the rest of the index holdings are flat. The big question is whether these laggards will rebound when the leaders take a breather, or add to the decline.

**International Stocks Are Badly Lagging US Markets.** After a flat first quarter, international stocks were rocked in 2Q by European political worries, the strong US dollar and tariff concerns. Developed markets, seen in the MSCI EAFE index, slid -1.2% this quarter and are down -2.8% YTD. Emerging markets, measured by the MSCI Emerging Markets index, were really hit hard by the US dollar gains and the potential for tariffs to hurt Chinese companies. After posting the top result (+37.3%) in 2017, this index slumped -8% in 2Q to fall to a -6.7% loss for 2018. China's Shanghai Composite is down over 20% since its January market peak.

**Financial Concerns Abound.** While US stocks are still seeing support from corporate tax cuts and solid, if not yet robust US economic growth, economists are concerned about multiple issues. Federal Reserve tightening, a growing US budget deficit, higher inflation, the stronger US dollar, trade war issues and tight labor markets that could force higher wages (and pinch those strong corporate earnings) all need to be considered. Investors are pondering the odds of recession for 2019-2020 as they decide how to approach the investment landscape.

### What We Are Doing For You:

**Reviewing Portfolios.** We fully anticipated that market volatility would return this year, after an unusually calm 2017, so the up and down markets this year are no reason to panic. We are closely watching specific market segments, though, and reviewing your portfolios to determine what changes, if any, should be made for the second half of 2018. We are not expecting to make radical asset allocation changes at this time but continue to analyze sectors and managers that may not have performed as we hoped this year.

On a personal note

## Welcome back, Leslie!



Leslie returns to Walnut Creek Wealth Management after seven years living in San Diego. She is delighted to be back in the Bay Area and to work with all of us again. Leslie is looking forward to re-connecting with our clients while bringing back her poise of client service excellence.



**Bernie** Bernie and Jody spent two weeks driving to visit three more National Parks, with the bucket list goal of visiting all 59 of them. We returned home in time to visit with youngest daughter Jenny and watch fire crews, helicopters and fixed wing aircraft quickly extinguish a 15 acre wildfire on the next hill over from our residence. We feel blessed to have such great people in uniform! Jenny will finish up at Cal Poly in December, with a degree in Physics and a minor in Philosophy. She has several jobs for the summer, including dog-sitting via the 'Rover' app. She hopes to continue her studies after graduation by pursuing another degree.

**Damien** It was an exciting time for Damien and his family as his oldest, Natalie, graduated high school in June. She is spending the summer working as a camp counselor at a children's sport and activity camp. Then it will be on to UCLA in the fall! The entire family is very happy to have her staying on the west coast. Son Nicky kept very busy with the off season high school basketball program and is looking forward to some down time now that it is over with for the summer. This summer he will be attending a Jazz camp at Stanford to further hone his saxophone skills.

**Debbie** Debbie and Dave returned from walking 180 miles along the Camino de Santiago in Spain. The Spanish hospitality, rural countryside, historic buildings and local foods made it the trip of a lifetime. She recommends it highly to anyone considering this type of adventure. Next up is backpacking six days on the southernmost portion of the John Muir Trail where they will summit Mt. Whitney. This will be the second time for Debbie and she is looking forward to sharing this with Dave and other longtime friends.

**Zack** Zack is enjoying the summer with the beautiful weather we've been lucky to have. He's been doing some long hikes at local trails and keeping up with exercise. His dog Walter loves going out to the park and to have playtime with his furry friends. Zack is looking forward to a Lake Tahoe trip in September and can't wait to start planning for it.

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

**Bernard Smit, CFP<sup>®</sup>, ChFC**

**Damien Couture, CFP<sup>®</sup>, ChFC**

**Debbie Pursey, MBA, CFP<sup>®</sup>, AIF<sup>®</sup>**

**Zachary Weirich, Financial Advisor**

Opinions expressed are not intended as investment advice or to predict future performance. Additional risks are associated with international investing, such as currency fluctuations, political and economic stability and differences in accounting standards all of which are magnified in emerging markets. Investing in the market entails the risk of market volatility. The value of all types of investments may increase or decrease over varying time periods. Investors cannot invest directly in an index.

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