CLEAR PERSPECTIVES
FINANCIAL PLANNING, LLC

QUARTERLY UPDATE

July 2018

Welcome to summer! We hope you enjoy our brief synopsis of the market last quarter, plus a heads up about bond funds in your portfolio, and how to approach investing in marijuana. Contact us any time with questions about the market or your portfolio.

– Carol Hoffman & Tim Grout

Market Overview

Cutting through the "headline noise" has been essential to assessing the outlook for various assets this year. While a lot of media focused on trade and political drama, the underlying fundamentals of the economy and the stock market steadily improved.

Index Returns	Q2	YTD
S&P 500	3.4%	2.7%
Dow Jones	1.3%	-0.7%
MSCI EAFE	-1.2%	-2.8%
U.S. aggregate bond	-0.2%	-1.6%

Morningstar index returns through June 30, 2018

A series of political and geopolitical events in the second quarter caused temporary pullbacks in stocks. But in contrast to the first quarter, U.S. economic growth and corporate earnings reminded investors of still-strong economic and market fundamentals. The major U.S. stock indices finished the quarter with modest gains.

Small caps and tech outperformed the large-cap weighted S&P 500, while the Dow Jones lagged thanks partially to trade concerns. The Dow is populated by many multinational companies that could be negatively affected by tariffs. On a sector level, energy was the top performer, aided by the late-June surge in oil prices. New tax laws are expected to bolster U.S. profits in general.

Interest rates & inflation: The Federal Reserve raised rates another 0.25% in June, as expected. We anticipate two more rate hikes this year, bringing the Fed Funds rate to a nine-year high. Steadily rising inflation (2% year-over-year this quarter) and rising interest rates present a different environment from what we have experienced over the past decade. *For more, flip to our article on bonds.*

International: In response to tariffs imposed by the United States, governments including China, Canada, and the European Union announced tariffs against goods made in the United States.

Global outlook: Trade war tightrope

Global growth and inflation appear firm enough to keep policymakers moving toward tighter monetary policy. The higher interest rates combined with trade wars may upend stability.

United States

Strong economy and corporate profits in 2018, but risk on the horizon.

- 3-4 total Fed rate hikes in 2018
- 2.7% GDP growth
- 20% earnings growth but valuations expensive
- Recession risks elevated in late 2019 to 2020

Europe

Strong fundamentals, relatively attractive valuation and supportive monetary policy.

- No rate increases by the ECB are likely in 2018
- 1.8-2.4% GDP growth
- 5%-10% earnings growth, neutral valuations
- Geopolitical risk around Italy, Brexit, trade wars

Asia-Pacific

Strong Chinese activity, robust global growth, attractive valuations, supportive policy.

- Expect broad-based growth and positive earnings revisions
- Trade war escalation and stronger dollar present risks

Russell Investments data as of 6/30/2018. There is no guarantee the stated expectations will be met. Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not a projection of the stock market or any specific investment.

Tariffs and trade barriers in an interconnected world

New taxes (tariffs) on imported steel and aluminum took effect in June. The goal is to encourage American manufacturers to buy these metals from domestic suppliers instead of from overseas. Soon after, Canada and China implemented their own tariffs on imported American goods in response.

Artist: Aloysius Patrimonio

Here are some potential benefits and risks of the U.S. tariffs to the economy.

Potential benefits:

- Foster specific industries
- Protect national security interests
- Help domestic producers and jobs
- Source for government revenue
- Address international trade distortions

Potential risks:

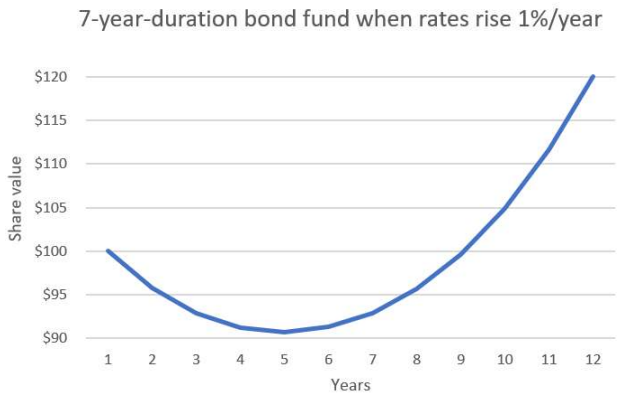
- Slow down economic growth
- Raise prices and stimulate inflation
- Hurt consumers
- Job loss in downstream industries
- Harm domestic exporters

The world has changed a great deal since the last time steel tariffs were implemented in 2002, so no one really knows what the outcomes will be this time.

Bonds are doing something new, so we are too

You may see more certificates of deposit (CDs) in your portfolio now than in the past. These FDIC-insured institutional CDs are a good alternative to bond funds in the current environment because of their guaranteed return over a set period. Interest rates are on the rise, causing existing bond prices—and therefore the value of bond fund shares—to fall temporarily.

Here's a handy illustration showing how rising rates affect an intermediate-term bond fund. (The rate of change is an example, not a prediction of future rates.)



You'll notice the bond fund's share value gets dinged pretty badly at first when rates rise. This predictable, temporary decline is why we're reducing exposure to bond funds for the near term, especially for our clients taking regular portfolio withdrawals.

The good news is we expect to be able to buy bond funds at a lower price after a few more interest rate increases. Additionally, higher interest rates contribute to growth over the long term, as the graph shows. Buying and holding a bond fund is still a good strategy for liquidity and hedging equities risk.

Vacation time means the "fake emergency" scam is back

Imagine getting a call from your grandchild/nephew/niece saying a horrible misunderstanding put them in jail overseas and they need money to get out. You would spring into action, right? Not quite so fast.

Film still from *Bridget Jones: The Edge of Reason*

Right now, the fake emergency scam is on the rise. In the example above, a bad actor uses details from Facebook or other social media to piece together a convincing story, perhaps mentioning family member names or a real trip. The young relative doesn't even know someone was pretending to be them, and money sent by the caring family goes straight to the pockets of scammers. The built-in urgency of the scenario is icing on the cake.

What to do: Don't rush to send money. First make a few phone calls to confirm the situation. If money is truly needed, use a traceable method like electronic bank-to-bank transfer or credit card.

Don't send cash or money orders, even if that's the method requested, because those are almost untraceable and unrecoverable payment methods. Most importantly, never give out personal information like account numbers to someone who initiates contact with you.

3 things to consider before buying a marijuana stock

Thinking of buying some shares of a marijuana company? We don't endorse it for your regular investment accounts, but owning any single stock or industry can be entertaining in controlled amounts for some people. Think of it as play money and follow these general rules to reduce the risk of getting fleeced by some of the less promising marijuana stock picks out there.

1. **Beware of marijuana stock scams**. These are usually disguised as marijuana penny stocks trading over the counter instead of on a major exchange. Seek instead a legitimate company listed on the New York Stock Exchange (NYSE), NASDAQ, Toronto Stock Exchange (TSE), or Canadian Venture Exchange (CVE).

Illustration by Lindsay Holmes for WSJ

2. **Maintain a strong grasp of the legal situation**. Much of the risk in this industry comes from the fluid legal situation surrounding marijuana in many countries, including the U.S. Stay up to date on the laws of the country in which your stock operates.

3. **Plan to see big swings**. Emergent industries like marijuana are volatile, which is why big gains can sometimes be generated quickly. The downside is they're prone to losing big just as quickly.

Please contact us with any of your financial questions or needs. Thank you for your continued support.

Carol & Tim and your Clear Perspectives team

Credits: Bond market article by Kate McInerney, data from Cullen Roche of Pragmatic Capitalism. Vacation scam article by John McInerney. Global outlook and tariff articles adapted from Russell Investments. Marijuana investing article adapted from Stephen Karmazyn of Profit Confidential.

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