CORNERSTONE
FINANCIAL SOLUTIONS, INC

Insights

AUGUST 2019

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Economic Update Q2

The first half of 2019 brought very strong results for financial markets. Both equity and bond investors saw positive results leaving investors in a happy mood. The Dow Jones Industrial Average (DJIA) enjoyed its largest June gain since 1938 and the S&P 500 experienced its best first half in two decades. *(Source: CNBC.com 6/28/2019)*

Concerns of an economic slowdown overshadowed the quarter for many investors. In May, the major equity indexes started heading lower. Although the quarter's final results showed an upward move of 3.8% for the S&P 500 and 2.6% for the DJIA, these gains came with an extension of the volatility that investors have been experiencing since October of 2018. *(Source: Wall Street Journal 6/29/2019)*

The strong six-month period that equity and debt securities have enjoyed has been tied to the pivot that the Federal Reserve has made on its interest rate outlook. In 2018, the Federal Reserve's stance was to raise short-term interest rates multiple times. Early in the month of January 2019, Fed Chairman Jerome Powell, switched that thinking when he announced that the Fed would be "patient" in boosting rates. In late spring, the dialogue from the Fed shifted toward indicating that their next move might be a rate cut. This shift helped create the environment which led to attractive returns for both stock and bond investors. *(Source: Barron's 7/1/2019)*

While equity markets closed the quarter at or near all-time highs, analysts ended the quarter with a checklist of concerns for the future. A slowing global economy, trade wars and tariffs, sluggish corporate earnings and the Federal Reserve's

KEY POINTS

- Equity markets reached new highs again this quarter.
- The bull market is now over 10 years old and is the longest on record.
- Theresa May resigned as the Brexit process continues.
- The Fed left interest rates unchanged at the June FOMC meeting, but has indicated that a future move could be to lower rates.
- The U.S. added 75k jobs in May, marking the 104th consecutive month of job gains (the longest streak on record.) Wage growth remained near cyclical highs and the unemployment rate (3.6%) remained at the lowest level since 1969.
- The threat of trade wars and tariffs created market and investment uncertainty.
- The amount of negative yielding global debt rose to the highest level ($13 trillion) on record.
- Consumer confidence (121.5) declined for the first time in three months and fell to the lowest level since September 2017. The Expectations Index declined to its lowest level, in five months.
- U.S. Dollar fell for the first time in five quarters.

upcoming decisions all headline a list of issues that could affect year-end results. According to FactSet, the S&P 500 made new all-time highs in the 2nd quarter. That was after S&P 500 earnings dipped 0.4% in the first quarter and were projected to decline in the second and third quarters of 2019 (compared to a year prior). A weak global economy and trade wars were cited as major contributors to earnings declines. *(Source: USA Today 7/1/2019)*

Although equity markets are high and investors should be cautious, some positive signs exist. At quarter close, the United States and China seemed to be on a constructive path. While Japan and many countries in Europe seem to be in economic stress, U.S.-based companies appear to be on more solid footing. *(Source: USA Today 7/1/2019)*

Investors are now enjoying the longest bull market ever, and two camps of thought are now emerging. One camp points to the fact that based on historical numbers, like price earnings (P/E), that equities are highly overvalued and overpriced. The other camp insists that we are in a **"TINA"** market, meaning, **T**here **I**s **N**o **A**lternative to stocks. This group feels that until rates rise significantly, this will remain true and that means there could be significant upside in the current market. Equities are not cheap and even the savviest of investors need to have a watchful eye on risk. As financial professionals, we always try to make our best forecasts. We look for a probability of success, understanding we face an inexact future. Short-term interest rates and cash equivalent yields are still historically low. Our goal is to focus on clients' timeframes and needed returns to achieve their goals.

THE FED LEFT INTEREST RATES UNCHANGED AT THE JUNE FOMC MEETING, BUT HAS INDICATED THAT A FUTURE MOVE COULD BE TO LOWER RATES.

Interest Rates Are Crucial

Interest rates are crucial for investors and the way the system works is that everyone follows the federal funds rate, which is the interest rate banks charge one another for overnight borrowing. The decision to raise, lower or maintain the rate is determined by the Fed's Federal Open Market Committee (FOMC). At their June meeting, the committee signaled a willingness to lower short-term interest rates to sustain economic expansion. While the Federal Open Market Committee voted 9-1 to keep the benchmark rate in a target range of 2.25% to 2.5%, eight members favored a rate cut this year. When discussing potential rate cuts and the need to keep the economy moving in a healthy direction, Fed Chairperson Jerome Powell said in a press conference that some officials believe the case for accommodation has "strengthened." At the session, the central bank predicted one or two rate cuts, but not until 2020. Despite cautious wording in the post-meeting statements many analysts are claiming that markets are behaving as if the Fed will cut rates in 2019.
(Source: CNBC 6/19/2019)

This scenario has set up a confrontation between Fed Chairman Jerome Powell and President Donald Trump, who has been pressuring the Fed to cut rates. The Fed committee's June report changed language from its May statement to indicate that economic activity is, "rising at a moderate rate," a downgrade from "solid." "In light of these uncertainties and muted inflation pressures, the committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective," the statement said. The "act as appropriate to sustain the expansion" language mirrors a statement from Powell in early June. *(Source: CNBC 6/19/2019)*

In response to the Fed's statement, the yield on the benchmark 10-year Treasury note fell to below 2%. This means that investors looking for better returns would have to consider equities even if they were highly priced. Due to low interest rates, mortgage rates also continue to be at historically attractive levels. Low rates also allow companies to borrow money at cheaper levels and therefore can encourage expansion and investment. While low rates are good news if you are a homeowner thinking of refinancing your mortgage or a chief financial officer about to roll over some of your company's bonds, it is concerning news if you want to see faster global economic growth in the years ahead. Lower long-term rates imply that investors expect even lower growth and inflation than had seemed probable just weeks ago.
(Sources: CNBC 6/25/2019, New York Times 7/4/2019)

LOW SHORT-TERM INTEREST RATES SEEM LIKELY TO CONTINUE AND INVESTORS WILL STILL NEED TO KEEP A WATCHFUL EYE ON THEM.

Savers looking at interest rates to meet their goals will find today's low rates concerning. One of our primary objectives is to help our clients navigate today's low interest rate environment.

Trade Wars and Tariffs

Financial powerhouse BlackRock lowered its global growth outlook, based on expectations that trade and geopolitical frictions will continue for the remainder of 2019. The firm said central banks are responding to the weaker outlook and are loosening policy, creating a constructive environment for U.S. and European stocks. BlackRock sees the tariff and trade tensions between the United States and China as part of a bigger concern for global markets. They note that trade issues create concern and uncertainty. Tariffs make costs higher for corporations and force some companies to change their supply chains altogether. According to Jean Boivin, head of the BlackRock Investment Institute, the uncertainty from trade wars should continue for some time. "We see the ebbing and flowing," he said. "We're going to feel the intensity go up. Then there's going to be a truce. We think that's going to continue."*(Source: CNBC 7/8/2019)*

The threat of tariffs diminished in the near-term following the meeting of Presidents Trump and Xi on the sidelines of the G-20 summit in Japan. "We're holding on tariffs, and they're going to buy farm product," Trump said at a press conference after the summit. That same day, equity markets rose in response. However, uncertainty about whether a meaningful agreement can be finalized could loom over markets in the second half of the year.
(Source: CNN Business 7/1/2019)

For now, existing tariffs remain in place and will continue to affect businesses.

TARIFFS AND TRADE NEGOTIATIONS COULD AFFECT EQUITIES, SO THIS IS ANOTHER KEY AREA THAT INVESTORS NEED TO CONTINUE TO MONITOR.

What Should An Investor Do?

Investors were clearly rewarded in the first half of 2019 and markets ended the quarter at or near record highs. CDs and money market funds can offer some of the lowest levels of volatility but in today's low interest rate environment they offer rates of around 2% or less. Some analysts are predicting equity markets will continue to rise while others are fearful. So, what should an investor do?

Know Your Risk Number

We all look at risk differently, based on our varying life experiences and financial position.

Our team utilizes cutting-edge technology to help you understand risk and clarify how much risk you can handle. Even more importantly, the tool helps you and your advisor have better conversations about asset allocation, and comprehensive financial planning.

This is a hypothetical illustration and not intended to represent performance of any investment strategy

WE CAN HELP YOU FOCUS ON YOUR PERSONAL GOAL AND STRATEGY.

Understand the risk and return relationship

Understanding how you may react to the ups and downs of the market gives you an edge, because too often the reactions to swings in value, not the fluctuations themselves, have the biggest impact on successful

long-term investing. It's important that you build a plan that includes a thorough understanding of risk. Every asset class has some degree of risk and we find that very few people truly understand their risk level as it relates to their entire financial plan.

Too often the **reactions** to swings in value, not the fluctuations themselves, have the biggest impact on successful long-term investing. Remember that every asset class has some degree of risk. For example, even though equities have risen, the continuing backdrop of a weakening economy, trade war fears and interest rate concerns create a need to recheck your time horizons. Our advisors will continue to monitor and refine your financial plan, and keep you informed about potentially relevant issues through regular reviews and frequent communication.

BARCLAYS PREDICTS IT IS MOST LIKELY THAT THE MARKET WILL CONTINUE TO RISE, BUT INVESTORS NEED TO CONTINUE TO PROCEED WITH CAUTION.

Markets can continue to rise but they also could head lower. Bernstein Economist Phillipp Carlsson-Szlezak writes that, "though stocks, on average aren't any more volatile than they were 100 years ago, the calm periods are calmer and the turbulent periods are more turbulent". He also asks the question, "Do we live in times of high or low equity volatility? The answer is: both." (Source: Barron's 7/1/2019)

In December of 2018, the S&P 500 saw a sharp decline (its worst December drop since 1931). Then in the first quarter of 2019, the index more than recovered that entire decline. May of 2019 was also a period of downfall for equities, however by the end of June, equity indexes were again at or near new highs. No one can predict the next rise or selloff with precision, therefore, its essential that investors prepare. (Source: CNBC 7/3/2019, Barron's 7/1/2019)

One Size Does Not Fit All

Keep your primary focus on your own personal goals and objectives. When markets are volatile it's important to fully understand your unique situation and financial plan in order to keep your perspective.

Make comprehensive financial planning an ongoing priority

Coordinating the many areas of financial planning can be complex and effective financial planning is not a "one-and-done." Tax planning strategies can impact retirement planning, coordinating investment management and estate planning is critical, and inadequate protection planning can jeopardize everything. The longer days of summer can be a good time to take stock of any recent life changes that may affect your estate plan, benefits and insurance and adjust as needed.

❏ Friday, August 2: **Information Security Day** – update your passwords for all online accounts to keep your personal information secure.

❏ Conduct a midyear review of the progress you've made on your financial-planning to-do list and any items you've discussed with your advisor such as updating your estate plan or re-evaluating your insurance coverage.

❏ Register with SSA.gov: Check your earnings history for accuracy and review your expected benefits.

Working with a team of skilled professionals like Cornerstone's financial advisors can reduce the burden of tracking and implementing the many moving pieces of your financial plan. In addition to regular reviews we are pleased to provide you:

✓ **Consistent and strong communication** through articles and newsletters like this one, market commentaries, education events, and regular check-in calls.

✓ **A team of professional**s passionate about providing extraordinary service, and committed to continuing education on the issues that affect our clients.

✓ **Coordination and consultation** with your attorney, tax preparer, and other professionals to help you gain financial clarity in ALL areas.

✓ **Comprehensive review of your tax return** to help identify tax-reduction strategies.

WHO DO YOU KNOW WHO WOULD APPRECIATE THIS INFORMATION? PLEASE SHARE THIS NEWSLETTER WITH THEM! WE LOVE MEETING NEW PEOPLE WHO COULD BENEFIT FROM WORKING WITH THE CORNERSTONE TEAM. IF THEY ARE IMPORTANT TO YOU, THEY ARE IMPORTANT TO US!

News & Notes

Be our guest at an upcoming Financial Workshop:

Social Security - The Basics, the Benefits, and the Potential Blunders

Tuesday, Aug. 20 • 6:00 p.m.

Downtown Sioux Falls - Hilton Garden Inn

Call 357-8553 to RSVP by Thursday, Aug. 15

Because we remain dedicated to our core values and focus - outstanding service - we are constantly looking for areas where we can deliver an even more compelling experience.

Everplans

Establishing your legacy is so much more than passing on financial well-being to future generations. We are excited to roll out this amazing online tool to help clients organize everything from wills and life insurance to account numbers, passwords, family letters and more. With Everplans, you can keep planning for the future and share what you'd like with your loved ones.

Riskalyze

Working together we can help take the guesswork out of your financial future. Your answers to this quiz can help your advisor better understand you and develop your Client Profile. An invaluable resource to help our team effectively identify and implement an appropriate investment strategy, the tool utilizes a scientific framework that won the Nobel Prize for Economics.

Riskalyze and Everplans are independent third-party service providers and are not affiliated with Raymond James.

See you in Arizona!

Wealth Advisor Richelle Hofer is heading to Arizona the week of Monday, January 13 - Thursday, January 16 to meet with clients and present educational events.

MARKET UPDATE AND ECONOMIC FORECAST

How the markets fared in 2019 and the expectations for 2020

TUESDAY, JANUARY 14
10-11:30AM
Office Evolution
15331 W. Bell Road, Suite 212
Surprise, Arizona 85374

WEDNESDAY, JANUARY 15
10-11:30AM
Mesa Chamber of Commerce
165 N. Centennial Way
Meza, Arizona 85201

Let us know if you'll be in the area and would like to attend, or if you know someone there we should meet, call Shelli at 605-357-8553 or email shelli.mosher@cornerstonefinancialsolutions.com.

New Video

Choosing a partner to coordinate all of the pieces of your financial planning is a big deal.

We get it. It's a big deal to us, too. If you choose to work with us you will become part of the Cornerstone family, and we will hopefully become part of yours. Markets will go up. Markets will go down. What won't change is our commitment to you.

Visit www.cornerstonefinancialsolutions.com to see a 30 second video that will give you a feel for Cornerstone as a practice.

UPCOMING MARKET CLOSURES

Monday, September 2: Labor Day

Thursday, November 28: Thanksgiving Day

Wednesday, December 25: Christmas Day

DO YOU KNOW SOMEONE WHO COULD BENEFIT FROM OUR SERVICES?

Many of our best relationships have come from introductions from our clients. We would be honored if you would:

- ✓ Add a name to our mailing list,
- ✓ Bring a guest to a workshop,
- ✓ Invite someone to come in for a complimentary no obligation financial review.

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