DEKKO INVESTMENT SERVICES
DREAM. PLAN. GROW.

October 2018


## 529 Contribution Reminder!

Don't forget to make your 2018 CollegeChoice 529 contributions by December 31st! Indiana taxpayers are eligible for a state income tax credit of 20% of contributions to a CollegeChoice 529 account, up to a $1,000 credit per year. If you are interested in making contributions or have questions regarding your CollegeChoice 529 account, please give us a call at 260-347-2265.

## Third Quarter is in the Books

| Index | Q3 Return | Index Description |
|---|---|---|
| **S&P 500 TR** | 7.71% | Tracks 500 leading large cap companies in the U.S. |
| **Russell 2000 TR** | 3.58% | Tracks 2000 of the smallest companies in the U.S. |
| **MSCI EAFE NR** | 1.35% | Tracks 21 developed international equity markets including France, Germany, Spain, the U.K. & Japan |
| **MSCI EM NR** | -1.09% | Tracks 25 emerging market countries including China, India, Brazil, Mexico, Russia, Turkey & Greece |
| **Barclays Aggregate Bond TR** | 0.02% | Tracks investment grade bonds trading in the U.S. |

Large cap U.S. equities, as measured by the S&P 500, managed a total return of 7.71%, making it the best quarter for the S&P 500 in five years. Small cap U.S. equities also finished in positive territory, gaining 3.58%, as measured by the Russell 2000. The market strength is supported by strong corporate profits, a growing U.S. economy, and historically low interest rates. On the other hand, there are a few areas of concern, including trade disputes with China, upcoming U.S. midterm elections, and the Federal Reserve rate hiking campaign.

International equities finished mixed with developed international equities ending the quarter up 1.35% and emerging market equities ending the quarter down 1.09%, as measured by the MSCI EAFE Index and MSCI EM Index, respectively. Continued strength in the U.S. dollar, political uncertainty, trade concerns, and a slowdown in global growth have remained headwinds for international equities in 2018.

The U.S. bond market posted a return of 0.02% in the third quarter, as measured by the Barclay's U.S. Aggregate Bond Index. In September, the Federal Reserve increased interest rates to a range of 2.00% - 2.25% and is forecasting one more rate hike before year-end. This September hike marks the eighth increase since the Fed began normalizing policy in December 2015.

## Required Minimum Distribution Reminder!

What is a required minimum distribution (RMD)? An RMD is the minimum amount that a retirement plan account owner must withdraw annually, starting with the year that he or she reaches 70½. RMD rules apply to employer-sponsored retirement plans (such as 401k, 403b and 457 plans), as well as Traditional IRAs, SEPs, SARSEPs, and SIMPLE IRAs.

Dekko Investment Services will be contacting all clients who have yet to take their RMDs. We want you to avoid the stiff penalty that the IRS imposes if an RMD is not taken by **December 31, 2018**. The penalty imposed by the IRS requires a 50% tax on the amount not distributed. To avoid this, we will work with you to ensure your RMD is taken by year-end.

# Can Midterm Elections Move Markets?

Written by Capital Group


With Election Day quickly approaching, midterm elections are top of mind for politicians and voters alike. And while control of Congress and influence over future policies may be at stake, do midterm elections have any effect on equity markets?

To find out, Capital Group examined over 85 years of S&P 500 data, and it turns out that stock markets do exhibit some unique characteristics during midterm election years. A variety of other factors influence stocks in any given year, but after digging deeper into midterm election history, key takeaways were identified.

**1. The president's party typically loses seats in Congress**

Midterm elections occur every four years at the midpoint of a four-year presidential term and usually result in the president's party losing representation in Congress. Over the past 21 midterm elections, the president's party has lost an average 30 seats in the House of Representatives and an average four seats in the Senate. Only twice has the president's party gained seats in both chambers.

Why is this the case? First, supporters of the party not in power usually are more motivated to boost voter turnout. In addition, a president's approval rating typically dips during the first two years in office, which can influence swing voters and frustrated constituents to seek change.

Since losing seats is so common, it's usually priced into the markets early in the year. But the extent of a political power shift — and the resulting policy ramifications — remain uncertain until later in the year, which can explain some of the trends we will explain below.

**2. Market returns tend to be muted until later in midterm years**

When isolating just the midterm elections years, markets tend to move sideways for most of the year, gaining little ground until shortly before the election. The adage that markets don't like uncertainty seems to apply here. Earlier in the year, there is less certainty about the election's outcome and its policy impact. But markets tend to rally when results are easier to predict in the weeks before an election, and continue to rise after the polls close and winners are declared.

**3. Volatility is elevated in midterm election years**

If you think midterm election years would be more prone to market volatility, you'd be right. Once again, election-year uncertainty seems to translate directly into higher volatility. This is especially true in the months leading up to an election.

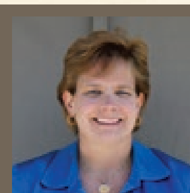
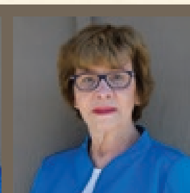
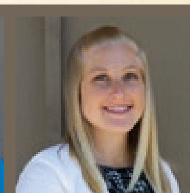
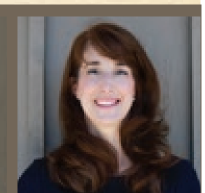
**4. Markets usually bounce back strongly after elections**

The silver lining for investors is that after such bouts of volatility, markets tend to rebound strongly in subsequent months. As we previously stated, markets typically rally shortly after midterm elections. History also shows that this isn't just a short-term blip: above-average returns are typical for a full year following the election cycle. Since 1950, the average one-year return following a midterm election is 15%, more than double that of all other years during a similar period.

**So what's the bottom line for investors?**

While midterm election years have exhibited these trends in aggregate over long periods, it is important to remember that each year is different and follows its own path. Midterm elections — and politics as a whole — generate a lot of noise and uncertainty. But the reality is that long-term equity returns are generated by the value of individual companies over time. A prudent investor should look past the short-term volatility spikes that elections can bring and maintain a long-term focus.


## Wishing you a profitable Fall!

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*(from left to right)*

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The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock investing involves risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise and bonds are subject to availability and change in price.

Portions of this newsletter have been prepared by Capital Group, home of American Funds.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

The Morgan Stanley Capital International ('MSCI') Europe, Australia, Far East Index ('EAFE') is an unmanaged index of over 900 companies, and is a generally accepted benchmark for major overseas markets. Index weightings represent the relative capitalizations of the major overseas markets included in the index on a U.S. dollar adjusted basis. The index is calculated separately: without dividends, with gross dividends reinvested and estimated tax withheld, and with gross dividends reinvested, in both U.S. dollars and local currency.

The Morgan Stanley Capital International ('MSCI') Emerging Markets Index adjusts the market capitalization of index constituents for free float and targets for index inclusion 85% of free float-adjusted market capitalization in each industry group, in global emerging markets countries. As of June 2007, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indexes: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

The Barclays Capital U.S. Aggregate Index is comprised of the U.S. investment-grade, fixed-rate bond market.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.