Q3|2018 - Portfolio Commentary

Portfolio Review

The beginning of the quarter started where Q2 finished, with most of the market's strength coming from a narrow group of technology stocks. However, as the quarter progressed, there was a meaningful "broadening-out" of performance. Trade issues were undoubtedly front and center, yet the market overcame much of the concerns and finished strongly. International stocks, which have been lagging (and dogged by trade concerns) made up some ground in the closing weeks but are still a negative year to date. Emerging markets were down significantly for the quarter and year, and bonds continue to trade poorly as interest rates rise. Otherwise, investing in domestic stocks was generally rewarding in Q3, with the S&P climbing back above its January high. Our models outperformed our diversified benchmarks, as well as industry benchmark - Morningstar Moderate Target Risk, consisting of 70-85% stocks.

Current stock valuations remain at somewhat elevated levels; investor sentiment is strong, and employment is robust. That leaves rising interest rates, wage inflation, and trade as current worries (excluding earnings, which always matter).

Helpful Asset Allocations for the Quarter:

Hedged interest-rate bonds, large value, large growth

Detracting Asset Allocations for the Quarter:

Core bonds, international and emerging market stocks

Looking Forward

With yields now sharply on the move again in the first few days into the quarter, the market has given up much of the Q3 gains (discussed above). Is this a little interest rate fever before the real flu (i.e., the next recession)? If so, this down move is likely temporary, and may be followed by more gains. Earnings are expected to be strong again, and only time will tell if they will be strong enough to offset the prospect of higher yields. And, some bad news may be good news; If we get some data that shows slower growth, rates may moderate some, which could reverse the sell-off.

Overall, we continue our diversified posture and do not expect big gains, but hopeful for more gains in stocks. Perhaps a nice round 3,000 on the S&P is a target for investors. As for international stocks, we are optimistic for a meaningful rally, closing the valuation gap some, with U.S. stocks.

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Thank you for your continued trust in our firm, and please let us know if you have any questions.

William Kring, CFP®
Chief Investment Officer

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