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"I don't focus on what I'm up against. I focus on my goals and I try to ignore the rest." – Venus Williams

Dear Clients and Friends,

As we have now crossed the midpoint of 2018 and reflect back on the previous quarter, we find an economy that continues to roll along and a bull market that follows, albeit at a more modest rate. An unemployment rate hitting an 18-year low and new housing starts reaching a 10-year high are just a few indicators of solid growth. Strong retail sales and soaring corporate profits also help paint the picture of a robust economic climate. In fact, corporate profits were so strong during the first quarter that nearly 80% of S&P 500 companies reported earnings that exceeded their mean estimates, according to FactSet Research. Many point to the effects of regulatory and tax reform helping to create this favorable backdrop.

Despite the positive points above, there appears to be many negatives weighing on the minds of investors. Continued rising interest rates, budget deficits, and inflationary fears seem to be tempering expectations. The markets have also seesawed on nearly every headline regarding tariffs and trade wars. Thus far in 2018, the Dow Jones Industrial Average has declined over 1% on 17 different days this year and eight of those declines can be directly attributed to trade-related news. It has been interesting watching the markets quickly react to negative headlines (or rumors) and then equally react on the positive side as tough political posturing morphs into reasonable negotiating. It is also difficult for most to ignore the tumultuous political environment that seems to divide our country along party lines and colors our view of the state of our economy and country.

Just as our politics remain divided, so too has the performance of the markets. On one hand, small and technology-oriented stocks have performed quite well during the first half of the year as indicated by the year-to-date return of 9.4% for the NASDAQ. Compare this to the returns of -1.5% for bonds, 1.4% for international stocks and 2.6% for the S&P 500 and 2018 has clearly been a story of two different markets. The negative return for bonds is fairly easy to understand as bonds generally move in the opposite direction of interest rates. Interest rates go up, bonds go down. One explanation for weak international equity returns is the negative effects of the aforementioned tariffs and trade wars hurting many world economies, while many fear that the current strength of the S&P 500 means that an impending slowdown is on the horizon.

If the good news/bad news scenarios mentioned above leads you to scratch your head in utter confusion, you are in good company. Maybe the current state of the markets and the world seem more confusing than ever before, but we would suggest that the path forward is rarely clear. Trying to accurately determine the next direction for interest rates, the economy, the markets or political elections is difficult at best and an activity that we try to avoid. Instead, we attempt to assist our clients with developing a long-term plan that can withstand a myriad of future events and outcomes. By focusing on meeting client-specific goals instead of attempting to "beat the market", we try to help our clients ignore the noise that so easily distracts from making real progress.

Perhaps we do not think of tennis great, Venus Williams, as a renowned philosopher, but maybe we should. Her quote at the top of this letter so eloquently sums up the mindset that we believe to be critical for an individual to achieve their long-term goals. If we allowed ourselves to focus too much on each and every extemporaneous force that may or may not influence the markets and our investment returns, we may never be able to make a decision. Said differently, this is "paralysis by analysis." If our only goal is to beat the market, how do we know if we are actually helping our clients meet their specific goals? For instance, it would not be prudent to structure a portfolio to try and beat the S&P 500, while a client may only need to achieve a 6% return to accomplish a specific goal. As Venus said, "focus on the goal, ignore the rest." Words of wisdom indeed.

As we invest capital for our clients, we work within a very specific framework where we strive to receive the highest rate of return while taking the least amount of risk to achieve their goals and objectives. We strongly believe that by remaining focused on executing this strategy and ignoring much of the outside distractions, allows us the highest probability of accomplishing the desired results.

As always, we thank you for your continued support and confidence, and we hope that you and your family have a safe and enjoyable remainder of the summer. Meanwhile, please feel free to contact us anytime with questions or comments.

Best regards,

Bob

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