McDaniel·Knutson

FINANCIAL PARTNERS

Using our **KNOWLEDGE, SKILLS** *and* **RESOURCES** *to help people increase their capacity to* **LIVE** *and to* **GIVE**

AUGUST 2019

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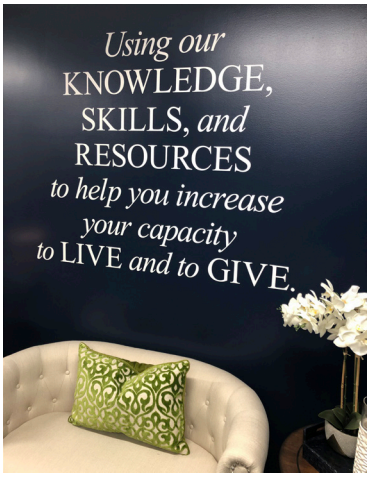
Spotlight On Philanthropy: Lawrence Family Promise

As many of you know, philanthropy is a core component to McDaniel Knutson. Our philosophy is documented in our mission statement (now proudly on display in the lobby of our new office)…we want to help people increase their capacity to live and to give. By being good corporate citizens, we want to lead by example, hoping to inspire others to do the same. Since our founding, we've contributed 5% of our **gross revenue, not just after-tax profits**, to charitable organizations and causes locally, nationally, and really all over the world.



This month we are proud to announce we will be partnering with Lawrence Family Promise as one of our core charities. We've spent quite a bit of time over the past year brainstorming with the leadership over at FPL and we're excited for what is coming down the pike. We've made a huge positive impact in India over the past ten years or so, and we are hoping to do the same right here in Lawrence. We hope you'll want to join us, so stay tuned for future ways to help FPL achieve their mission of helping homeless families with children achieve and maintain permanent housing.

I'm taking this month "off" and I've asked Dana Ortiz, the Executive Director of Lawrence Family Promise, to pinch hit for me.

- Peter D. Knutson, CFP®, CLTC, AIF®

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For the past 10 years, Lawrence Family Promise has been offering hope to local families in the Douglas County area and helping them return to permanent housing. We have clearly seen the serious needs of local families on the margins, as over 300 new families call us each year in need of our services. Because of the documented needs, we have continued to expand programming and have increased the numbers we can serve locally in active and crisis programming by 82%.

We now offer a full spectrum of service options ranging from prevention, through crisis, to sustainability. The most important outcome of our work is keeping to our mission: Helping homeless families with children achieve and maintain permanent housing. Year after year, more than 86% of families we serve remain housed after a 2-year tracking period. For those families who participate in our Temporary Housing program, we have less than a 2% recidivism rate annually. Said another way, when families participate in our program, 98% of them do NOT relapse into their old patterns. We conclude from this that many people are right on the edge of success and often times all they need is a little nudge to keep from falling off the wrong way. This work can only happen with community involvement. We would love for you to become part of the work at FPL and join us in the

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Market Commentary: Dow 27,000 and S&P 3,000!

Written July 16, 2019

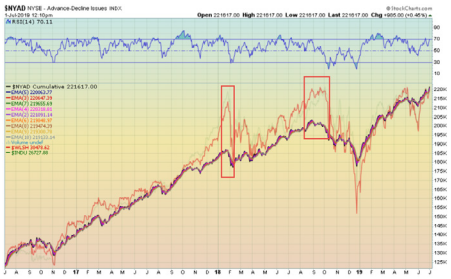
Welcome to brand new market highs. And not just any highs, but nice round numbers. The Dow Jones Industrial Average crossed over 27,000 and the S&P 500 closed above 3,000 for the first time ever last week. This year has seen an enormous up-move in large-cap US stocks and it's tempting to think that the economy must be coming up roses. But especially in times like these, it's important to keep the big picture in mind.

This is a chart of the S&P 500 for the past 18 months. In that time frame, the index is up only 4.45%. The move this year has largely been a recovery from what was lost in the fourth quarter of 2018. So the important question is what to expect over the next 12 months. And now more than ever, the answer to that question is "it depends." Let's break this down into the bull case and the bear case.

The Bull Case: Unemployment is historically low. Interest rates are also historically low. Companies buying back their own stock is at record levels because of these low rates, and the Federal Reserve is almost guaranteed to cut rates even further at the end of July. We currently have a pro-growth Fed, one that seems willing to do whatever it takes to keep the expansion on track. The old adage "don't fight the Fed" comes to mind here. And if China and the US make any kind of trade deal, even if it is heavily skewed in China's favor, and if the tariffs are lifted, the market could explode to the upside.

And then there's all the dry powder. There's a record amount invested in cash and bonds by money managers as they have moved more defensively in the last two months, and that leaves a lot of cash to buy back into the market if big uncertainties start to go away and earnings surprise to the upside.

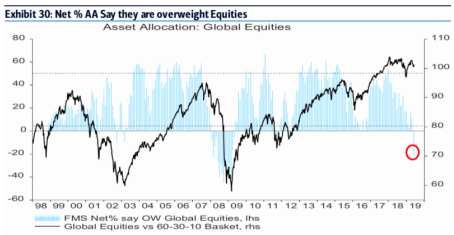
Turning to the biggest technical indicator to point toward more growth, the Advance/Decline line is hitting new highs, which is not associated with a weakening market. Below is the current A/D line (the red line is the Wilshire 5000):



So in the very short term, the bulls are in charge.

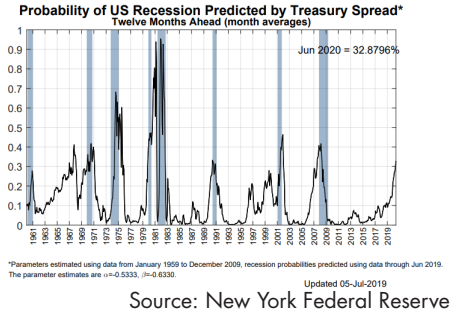
The Bear Case: We're starting to see multiple concerning trends in the underlying fundamentals of the economy that have been associated with recession in the past. Manufacturing is turning over worldwide and is now contracting in China and Europe. World trade volume has plunged, and the S&P 500's 3rd quarter earnings are now projected to have a year-over-year decline. A record number of S&P 500 companies have issued negative EPS guidance. Here are more highlights:

1. As I mentioned in the bullish case, asset managers are becoming more defensive. Last month saw the biggest exit from global equities since 2007. If you regard this as "smart money," this is a warning shot. If you're contrarian, you'd take this as a bullish sign, although to do so in 2007 would have been the wrong move.



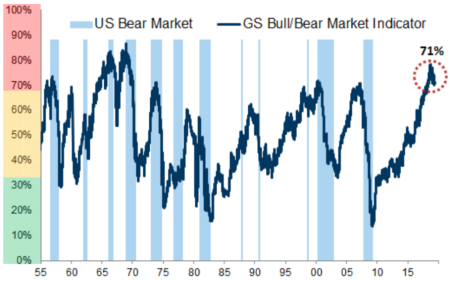
Source: BofA Merrill Lynch Global Fund Manager Survey

2. There are multiple recession probability models out there but here are a couple: the New York Federal Reserve and Goldman Sachs. Both are at levels in which historically a recession has followed within 12 months. If you recalculate the Fed's recession model post 1985 (to get rid of outliers in the 1960s), we stand at a 64% probability of recession within 12 months. In 2007, it would have been 70%.



Source: New York Federal Reserve

Goldman Sachs has their own recession model. It peaked at 75% at the beginning of this year and has moderated to 71%, although this is at a level that has also historically been followed by recession or indicates we were already in recession when looking back.



Source: Shiller, Haver Analytics, Datastream, Goldman Sachs Global Investment Research

3. Let's talk yield curve. Recessions have historically taken hold after the Fed begins to cut rates following a curve inversion and the yield curve then un-inverts. The Fed is set to cut at the end of July. This may send the market higher in the short

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Family Promise

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effective, efficient, local solution to family homelessness.

What are some ways you might be able to help?

1. Donate to support the work of Family Promise of Lawrence – We are 100% locally funded which means that this work is being done because local people are investing in their neighbors. You can change lives for generations by donating through a PayPal account or with your credit card at this web address https://lawrencefamilypromise.org/donate-now/

2. Donate to the FPL Savings Match Program – which allows qualified families who graduate from the FPL programs to have up to $1000 of their savings matched through a distribution over a 6-month period of continued supports with FPL staff.

3. Participate in a Bridging Home Program – which allows subsidized rent for qualified families for up to 1 year, so they can continue to save income and work on living in their family budget with FPL case management supports.

4. Participate in the FPL prevention of homelessness program, Community Housing Connections – a landlord referral program that requires a 3-way agreement between landlord, tenant, and FPL. The purpose of this program is to keep the family from being displaced into homelessness through case management support, and some back rental funding to the landlord.

5. Volunteer – FPL volunteers contribute nearly $750,000 worth of in-kind donations each year through labor and service.

6. Participate in our annual golf tournament and auction. This year's auction is on Sunday, September 22nd and the golf is Monday, September 23rd at Lawrence Country Club. See the flyer on the back page of this newsletter.

Find out more by visiting our website: www.lawrencefamilypromise.org

Thanks for your support and I'd love to talk to you about all the great things going on at FPL!

Sincerely,
Dana Ortiz

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Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take in accounts the effects of inflation and the fees and expenses associated with investing.

Some IRAs have contribution limitations and tax consequences for early withdrawals. Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty. For complete details, consult your tax advisor or attorney. Converting from a traditional IRA to a Roth IRA is a taxable event. A Roth IRA offers tax free withdrawals on taxable contributions. To qualify for the tax-free and penalty-free withdrawal of earning, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59½ or due to death, disability, or a first time home purchase (up to a $10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.

The S&P 500 Index is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks in the Industrials, Transportation, Utilities and Financials sectors.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards."

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Market Commentary

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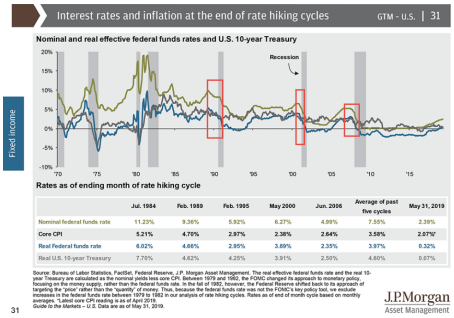
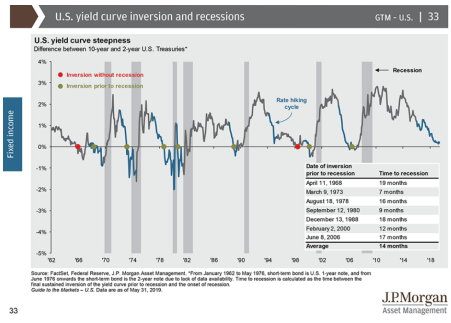
term but it's another checkmark in the recession box.



Have there been inversions without recessions? Yes, two times since the 1960s. In the chart below, you can see the recessions take hold after a rate hiking cycle turns into cuts and the yield curve steepens. The average amount of time between a yield curve inversion and a recession is 14 months but has been as few as seven months and as many as nineteen.



What can we conclude then? In the short term, Fed rate cuts and any sign of reconciliation with China could send the market even higher from here. But we are seeing growing signs of a possible recession in the next 12 months. Because of that, we remain fully invested in our managed models but with a defensive tilt. As always, we're keeping a very close eye on how economic indicators progress.**

- Victoria Bogner, CFP®, CFA, AIF®

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Auction Party and Golf Tournament

TO BENEFIT LAWRENCE FAMILY PROMISE

Auction Party	Golf Tournament
Sunday, Sept 22, 2019	Monday, Sept 23, 2019
The Oread Hotel	Lawrence Country Club

Honorary Co-Chairs
Brian Hanni
Voice of the Jayhawks
Dr. Anthony Lewis
Superintendent of Lawrence Public Schools

Title Sponsor

Cork and Barrel
Wine • Spirits • Beer

https://lawrencefamilypromise.org/golfandauction/