STRAIGHT TALK

2nd Quarter 2018

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Market Returns

Domestic Large
S&P 500
2.65%

Domestic Small
Russell 2000
7.66%

Intl Developed
MSCI EAFE
-2.75%

Emerging Markets
MSCI EM
-6.66%

Fixed Income
BBgBarc US
Aggregate Bond
-1.62%

**Market data is from Morningstar and is through 6/30/18. All returns are with dividends reinvested.*

Markets were mostly flat in the second quarter, as are diversified portfolio returns for the first half of the year. Gains in domestic equities have been offset by losses abroad and in fixed income. One bright spot has been small cap stocks, which have done well globally, as they are largely isolated from the fears of potential trade wars. With global trade rhetoric and the ongoing normalization of monetary policy by the Fed, investors have been focused on macro issues and markets have been subject to greater headline risks.

Looking towards the second half of the year, we will be watching the Fed's actions to normalize monetary policy. To us, this is the larger issue, as we believe that trade talks will eventually be settled with relatively minor disruptions. As interest rates move higher, we remain focused on investing in short-term bonds and increasing cash allocations. In our equity allocations we continue to look for the stocks of companies that demonstrate strong earnings growth, while avoiding interest rates sensitive sectors, such as real estate and utilities.

Although strong returns in 2017 have given way to lagging performance in 2018, we remain committed to investing in international equities. In our view this has been related to shorter-term factors, such as trade fears and a strengthening of the US Dollar. The global economy remains in good shape, and more attractive valuations in international markets continue to be supportive of longer-term strategic investments. It is our belief that once we get past some of these disruptions, equity markets may see a sustained rally, and we would expect international stocks to lead the way in such a scenario.

Volatility continues to persist across markets, and we have no reason to expect a significant decline in the weeks ahead. As summer eventually gives way to the fall, focus will undoubtedly shift to the mid-term elections. Historically speaking, this is an uncertain time for equity markets and returns are usually lower Q2 and Q3 of mid-term years. This doesn't mean that we should sell stocks and get out of the market, rather, we should remain focused on long-term objectives.

Despite the recent increase in volatility, we believe that the underlying fundamentals of the economy are strong. Investors should, however, remain diligent, as there are a number of items with the potential to move markets — trade, the mid-term elections, and Fed policy. Nevertheless, as we move through the second half of the year we believe that the potential worries will subside and give way to better returns. Please call us if you have any questions and enjoy the summer weather.