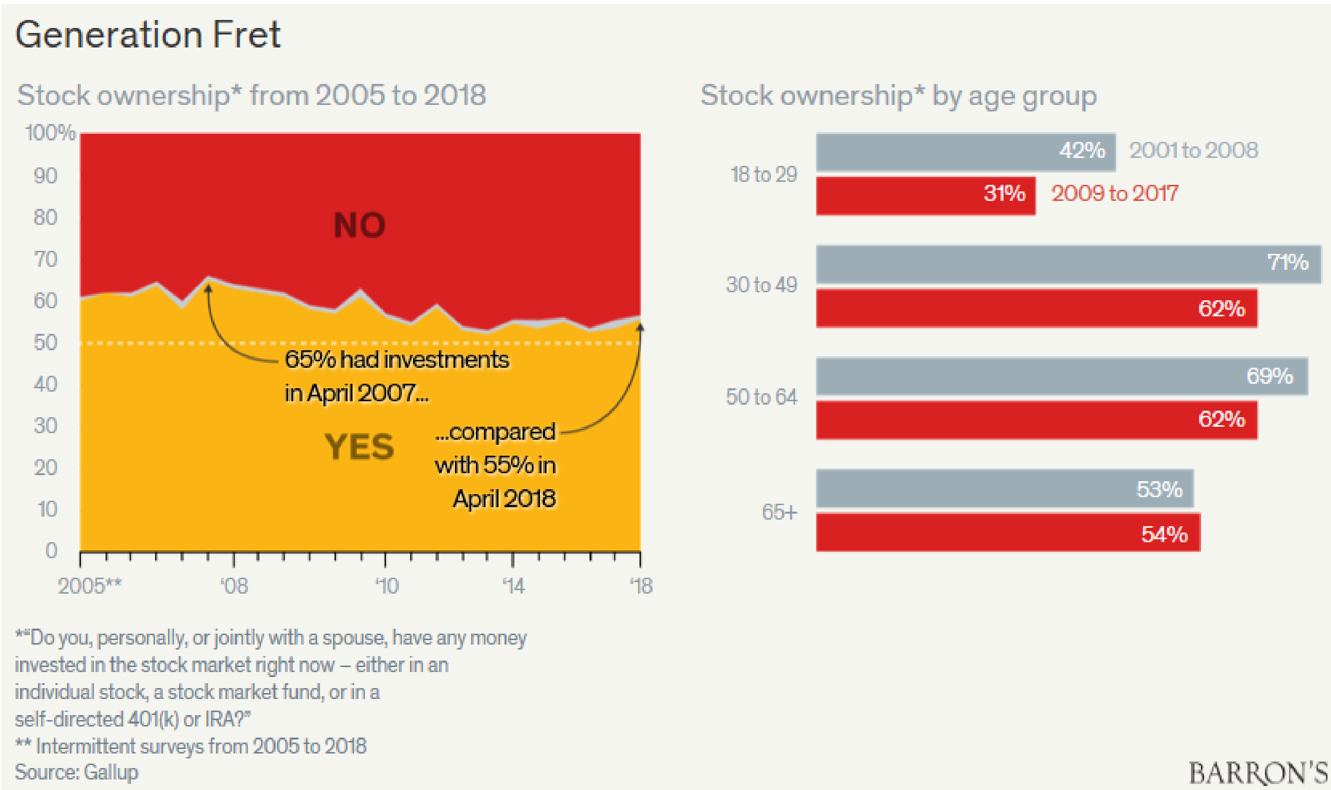
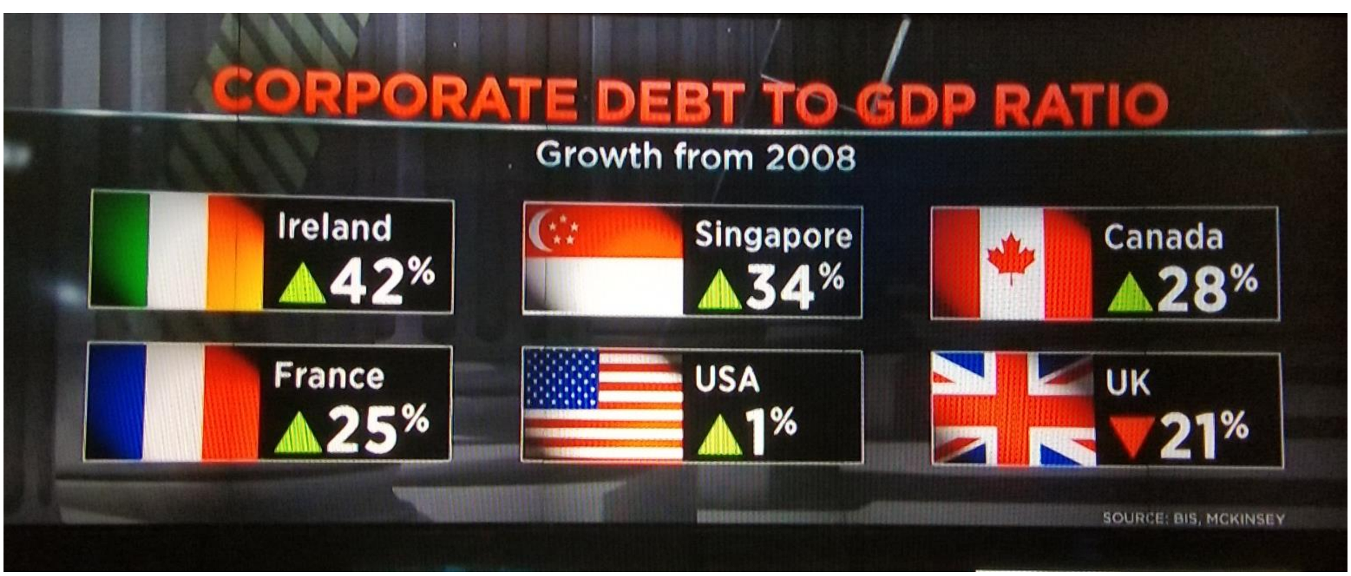
3rd Quarter 2018 Review

10 Years Later Things Are Much Improved

Ten years ago, we witnessed the collapse of Lehman Brothers. After Lehman fell, the S&P 500 dropped another 46%. Thankfully, our clients hung in there and have been significant beneficiary's. Unfortunately, not everyone has returned to the stock market. This will make it even harder for younger generations to accumulate enough in assets for a comfortable retirement.



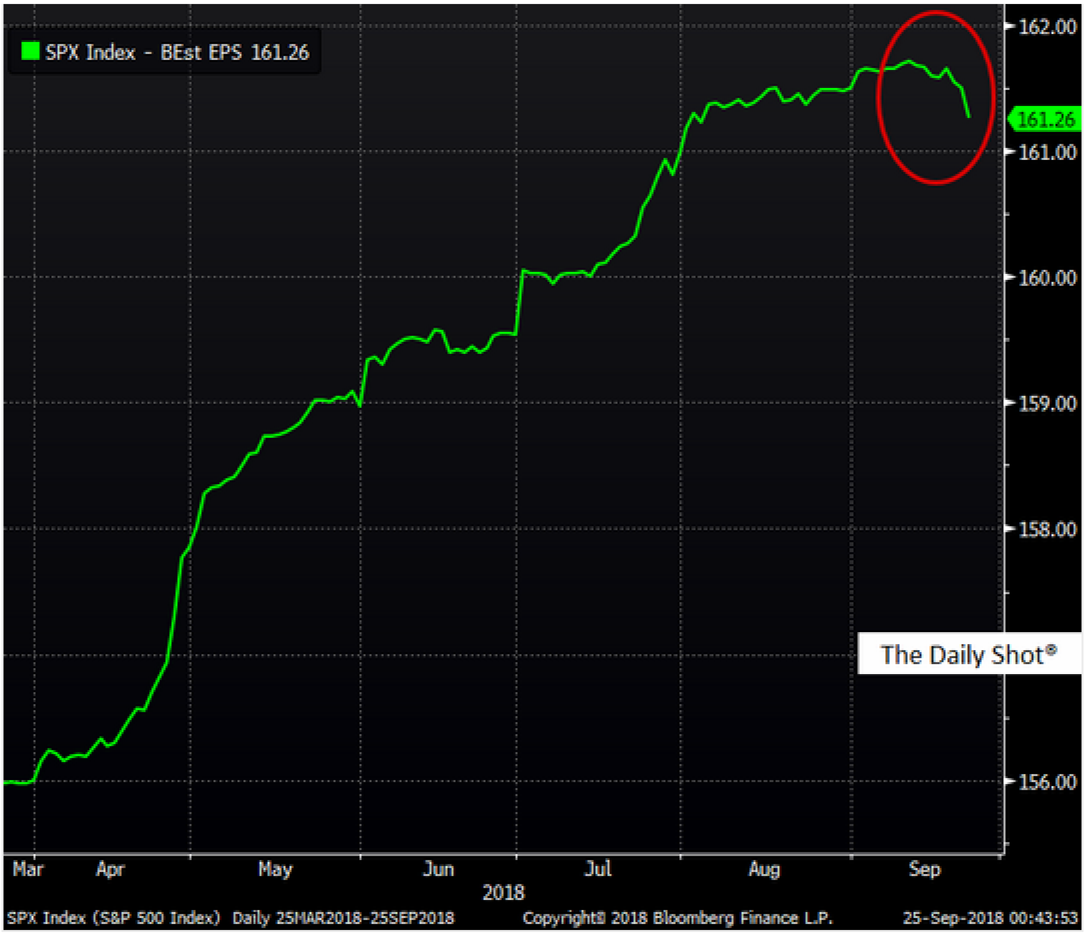
As happy as we are to see the rebound in the world's financial markets, we acknowledge much of this has happened on the back of debt.

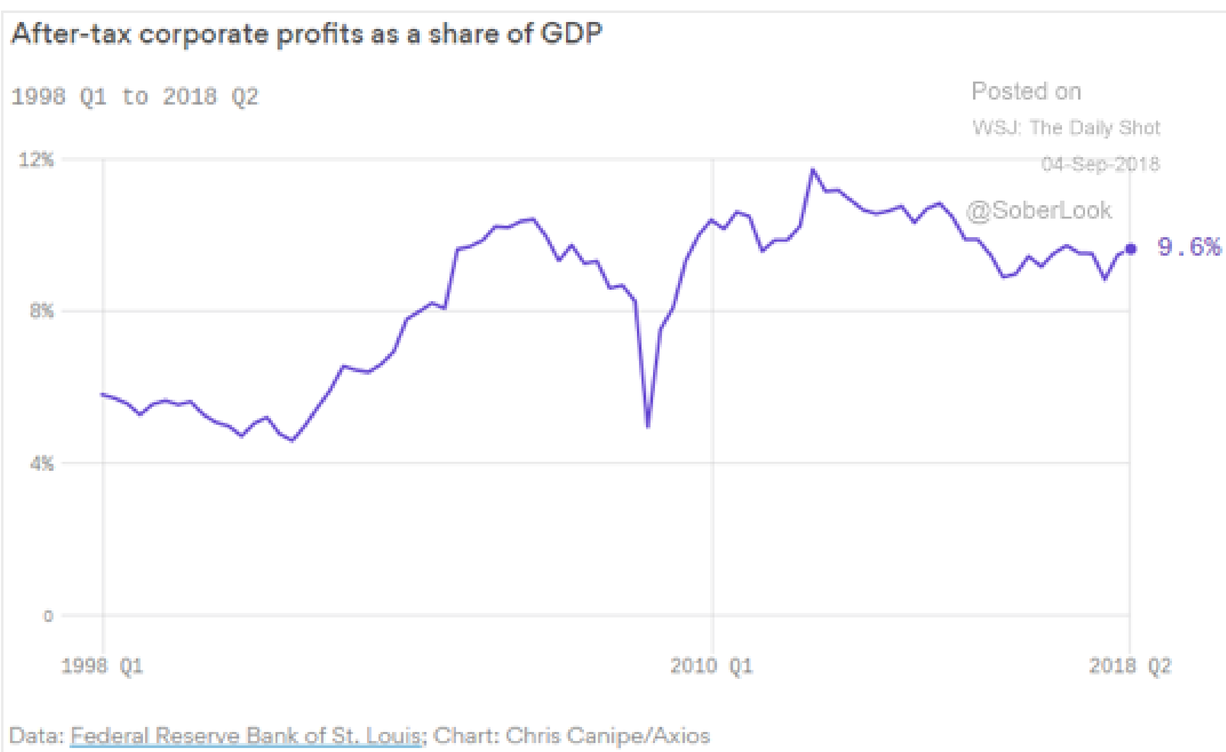


Given the strength in the stock and financial markets, consumers are generally very optimistic. Consumer confidence hit 138.4 in September, vs. a 132 estimate. September's index is near the all-time high of 144.7 reached in 2000. Historically high confidence levels should continue to support healthy consumer spending and be welcome news for retailers as they gear up for the holiday season.

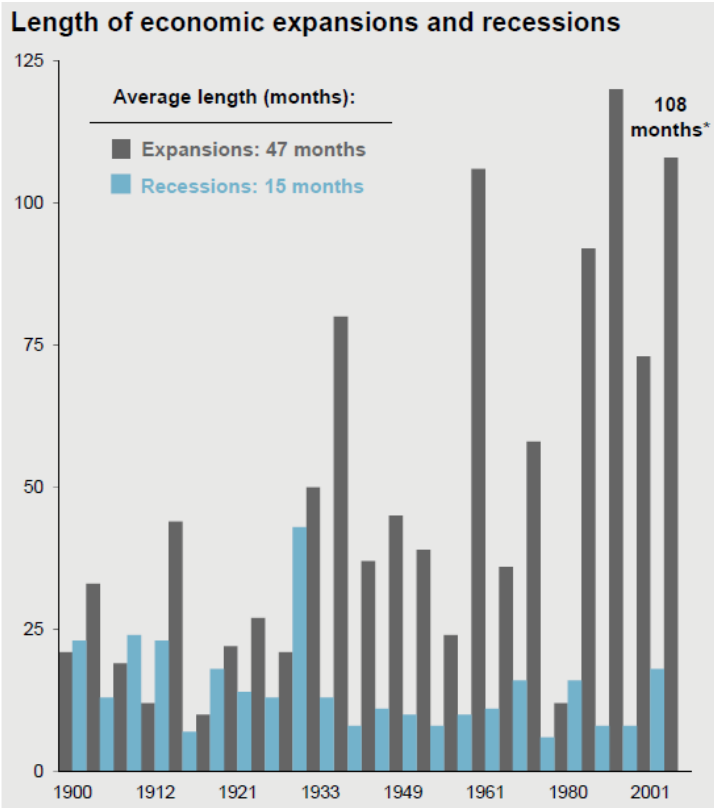
Gains in the US stock market have started to show valuation differences relative to the world markets. Despite this, the US market is not ridiculously over-priced.

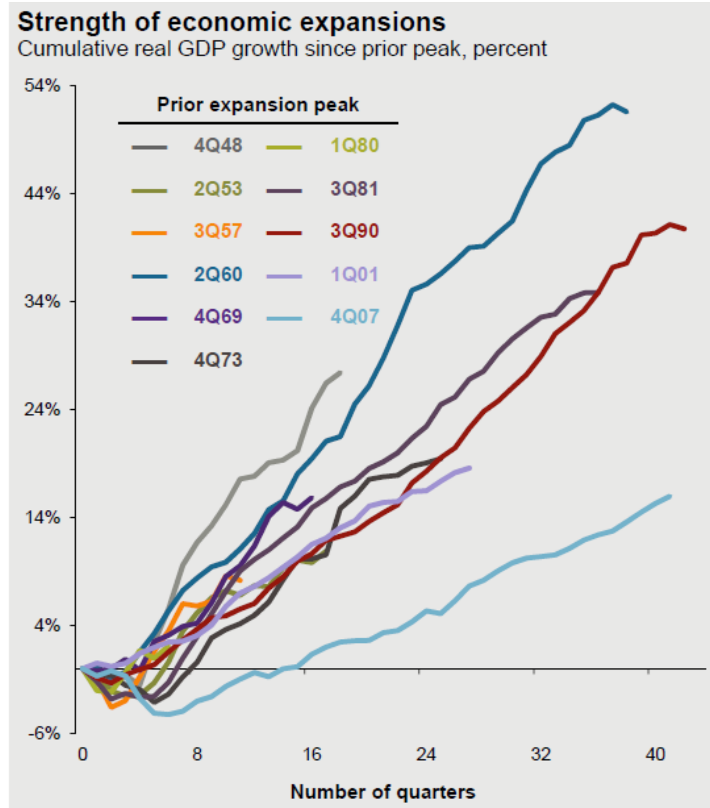
Several different perspectives show Corporate Profit Margins and Earnings Per Share are strong, but analysts are turning more cautious on corporate profits. This chart shows Bloomberg's consensus estimate of the S&P 500 earnings per share for the next twelve months.





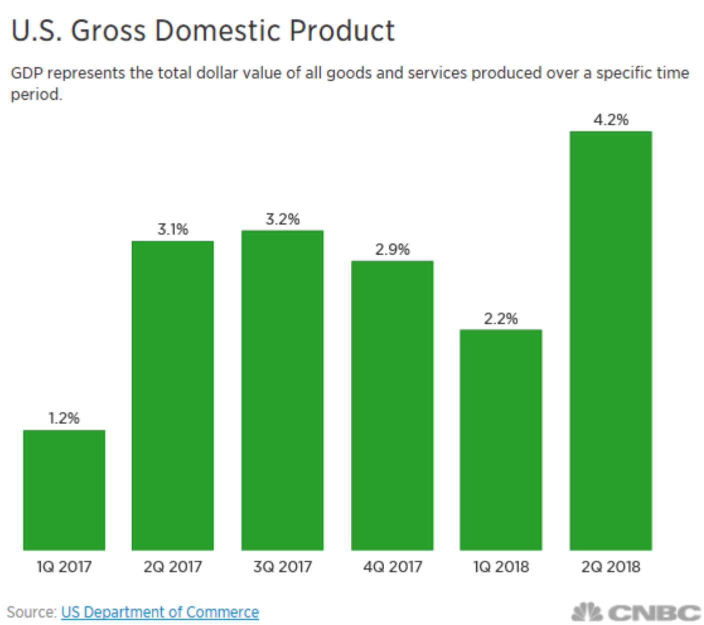
Although the economic expansion has been criticized for being less intense in its growth, its persistence has been admirable. September marked the 110th month of cumulative Gross Domestic Product growth since July 2009.

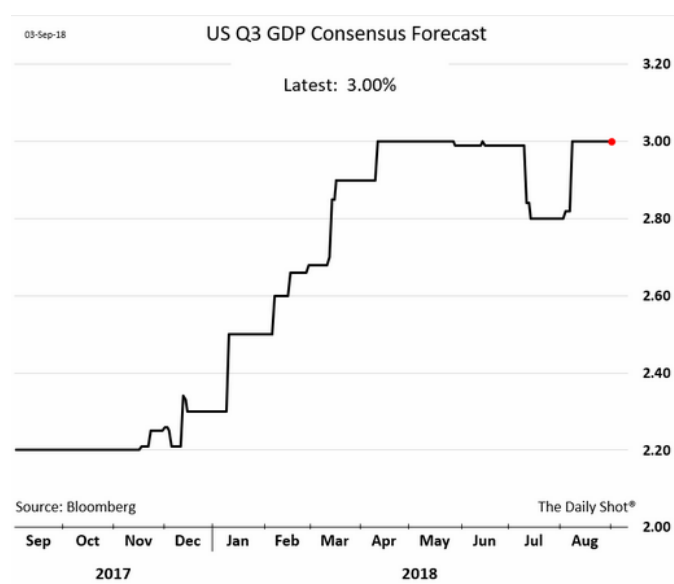




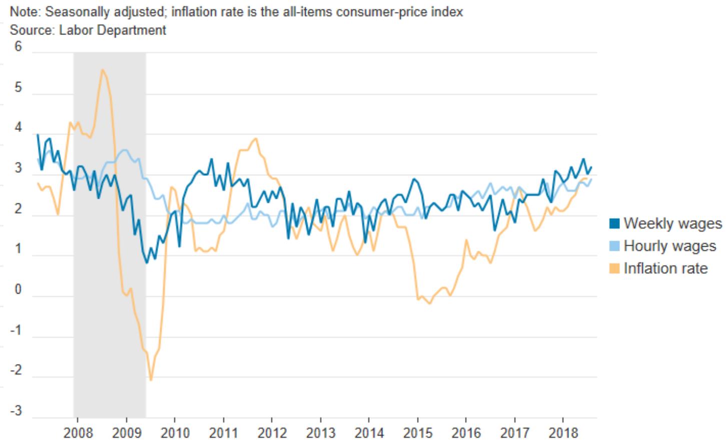
Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through June 2018, lasting 108 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at www.nber.org/cycles/ and reflect information through June 2018.

Second quarter GDP surpassed 4%--a level we have not seen in quite some time. Projections for the third quarter continue at a respectable 3% pace. Much of the world is participating in this resurgence also. Final reading on Q2 GDP confirms 4.2% gain, the fastest rise in nearly four years.

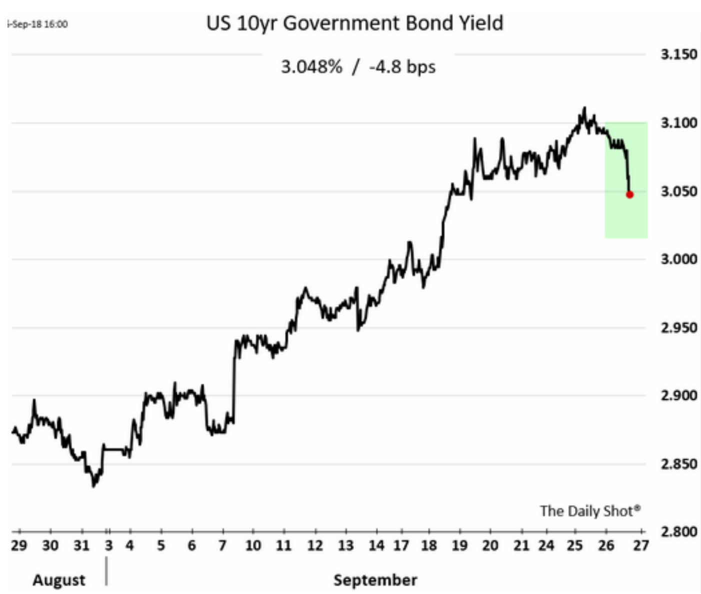


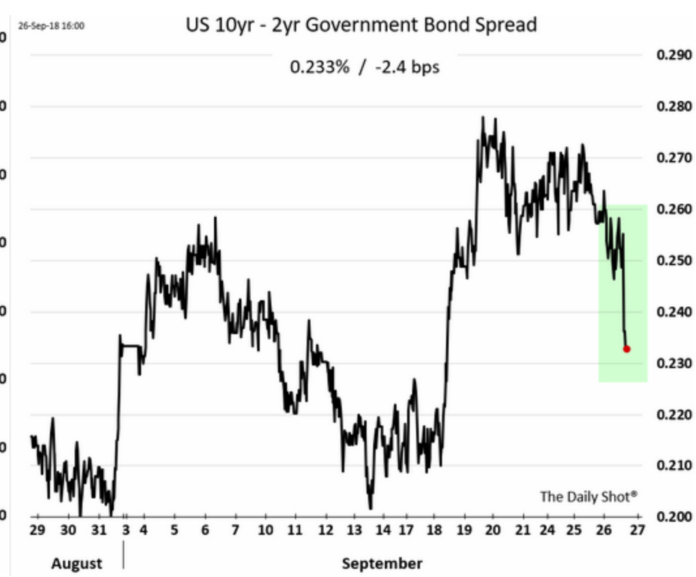


Inflation, as measured by the Consumer Price Index, is starting to heat up. The index has increased from 2% to 3% as wage pressures accelerate. This is a consquence of a growing economy.

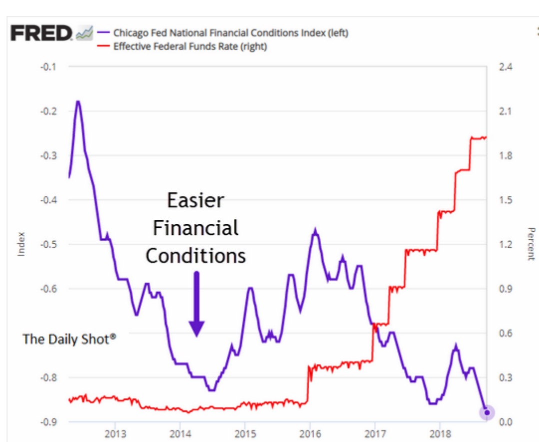


Market history shows concern over the shrinking spread between the 2-Year and 10-Year U.S. Treasury as it often predicts a recession. When the yield on the 10-Year U.S. Treasury minus the yield on the 2-Year U.S. Treasury has dipped below zero in the past, the economy (as well as the stock market) has often run into trouble. The current spread continues to compress—but is not negative.

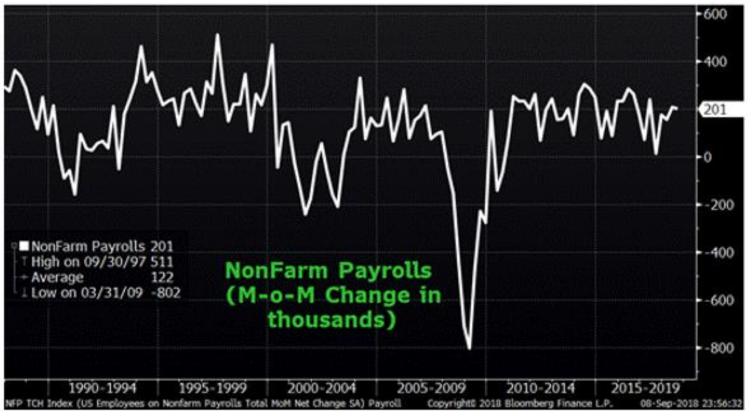




Despite the Federal Reserve continuing to increase short-term interest rates, long term rates have not move up much. As such, financial conditions in the broad economy are quite accommodative.



Unemployment remains quite low accompanied by low first-time claims for unemployment benefits. The private sector continues to grow nicely while the government sector continues to shrink.



The Institute for Supply Management (ISM) reading for the Factory Sector jumped to 61.3 in August. This was almost the highest rating in 30 years.

Similarly, the ISM for the Service Sector was a much better than anticipated 58.5 in August.

Sincerely,

Dave

Warren

Dave Sather, President
CERTIFIED FINANCIAL PLANNER™

Warren Udd, Vice President
CERTIFIED FINANCIAL PLANNER™