

# FLAGSTONE

FINANCIAL ADVISORS, INC.

## MARKET REVIEW SECOND QUARTER 2018

### *What Happened:*

Just as the market appeared to be settling down from the January correction, it was jolted in June by fears of a global trade war. Compounding investors' anxiety is the upcoming November elections, keeping the markets volatile with no clear direction. You may wonder how we should navigate the return of the "wall of worry."

As long-term investors, we must try to take a broad perspective and focus on indicators that matter to the market. Corporate earnings are growing at a brisk pace. Inflation remains in check. Unemployment is low. Interest rates are low. Business sentiment is high. Mergers and acquisitions in the first half of 2018 are running 57% ahead of last year. In short, our economy is thriving.

Some investors are concerned by the increase in volatility, but that is a normal occurrence in a midterm election year. In fact, according to S&P Global, volatility increases in midterm election years by an average of 34%. What's more, looking back to the most recent 18 midterm election years, stocks never failed to rise in the 12-month period following the elections, with an average gain of 16.6%.

### *Second Quarter 2018 Performance:*

S&P 500 Index (large stocks)	3.4%
Russell 2000 Index (small stocks)	7.8%
MSCI EAFE Index (international stocks)	-1.2%
Barclays U.S. Aggregate Bond Index (bonds)	-0.2%

### *Prognosis:*

There is an old saying that stocks like to climb a "wall of worry." We suspect this will be the case again, especially as we get closer to the fall elections. As pointed out above, the economy is strong and most economic indicators are positive. The market's primary enemy—recession—remains at bay. We are looking forward to the second half of 2018.

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