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Volatility is here to stay in the financial markets. In this newsletter Bryce discusses the trade war threats between the US and China, Casey reviews the importance of having a financial advisor with a fiduciary duty and Jon gives us an update on his career path and a recent decision he has made. We wrap up this newsletter with some ways to contribute to the TD Ameritrade accounts as well as some updates around the office.

Bryce's Point of View

-By Bryce Pease, CFP®, Chief Investment Officer

The headlines are filled with rumors of a trade war between the United States and China.

You've probably heard by now that both nations have announced tariffs on many of each other's goods. This has many economists concerned about a trade war. A trade war, in case you're not familiar with the term, is "an economic conflict in which countries impose import restrictions on each other in order to harm each other's trade."

In response, the markets are doing their best impression of a see-saw – falling and then rising again. Because this story probably won't go away any time soon, let's break it down. Here are:

Seven Things to Know about the USA-China Trade Dispute

ONE: ***The U.S. has announced tariffs on almost $50 billion in Chinese exports.***[1]

The list, which stretches to over 1300 items, includes goods like medical equipment, chemicals, televisions, and automobile parts.[1] This is on top of an earlier spate of tariffs on Chinese steel and aluminum. However, many of the most commonly-used goods Americans use, like shoes, clothing, and phones, are not included.

TWO: ***China has retaliated with tariffs of their own.***

On April 4, China announced plans to levy a 25% tariff on roughly $50 billion worth of American goods.[2] This includes airplanes, cars, soybeans, and other vegetables. Earlier, China had already declared tariffs on $3 billion worth of agricultural exports, like fruit, nuts, and pork.

THREE: ***The two countries aren't actually in a trade war – yet.***

Notice how often I've used the word "announced"? As of this writing, none of these tariffs have gone into effect yet. That said, there are signs that the situation is already escalating. On Friday June 15th, President Trump said the U.S. will put duties on $50 billion in Chinese imports, with the first wave of tariffs to cover $34 billion of goods and take effect on July 6.

To put it simply, a trade war has been declared, but the "fighting" hasn't started yet.

FOUR: ***Both sides see the situation very differently.***

It's safe to say neither country *wants* a trade war – hence the delay. But that doesn't mean negotiations will be simple or easy.

The issue, at least from the U.S. administration's standpoint, is a $375 billion trade deficit[2] with China, which many see as being due to unfair or even illegal trade practices. China has a long history of forcing American companies to share their technology in order to do business there. In some cases, Chinese companies are alleged to have outright stolen American intellectual property. The administration believes that tariffs will stop these practices and reduce the deficit.

China, of course, doesn't see it the same way. The Brookings Institution, a well-known think tank, describes it like this:

> *"From Beijing's perspective, the U.S.-China trade imbalance is a result of many factors—automation, evolving global supply chains, increased competitiveness of Chinese firms, the Federal Reserve's normalization of interest rates, and the Congress's deficit-increasing tax cuts. Because the trade balance is the difference between savings and investment, Beijing also views U.S. fiscal and monetary decisions as contributing to America's overall trade deficit—including with China."*[3]

Overcoming this basic difference in opinion will probably need to happen before the two countries can strike a new deal.

FIVE: ***Trade wars can impact markets…***

Again, we're not yet in a trade war. But should these tariffs go through, history suggests it will have an impact on the markets.

Tariffs are a tax on imported goods and services. They essentially make it costlier and more difficult to import certain things, like metals, foodstuffs, consumer products, and so on. That can be a major boon to industries that produce those same things, because it forces consumers to buy domestically. On the other hand, China's tariffs could make it harder for U.S. companies to sell their own goods. For those companies that do a lot of business in China, this can have a major effect on their bottom line. As a result, some companies' stock price could suffer.

SIX: ***…and market volatility is likely to continue.***

To give you an example, on Wednesday, April 4th, when the markets opened, the news out of China caused the Dow to drop 510 points. But the Dow rallied later in the day, ending *up* 300 points.[4] On the other hand, the markets fell again on Friday, April 6th, shortly after President Trump announced he was considering an additional $100 billion in tariffs. At one point, the Dow slid over 700 points.[5]

While a trade war can be unsettling for investors, it's important to remember that the day-to-day movement of the markets is based on many factors. Trade is only one of these. The overall economy is still doing well, unemployment remains low, corporate earnings continue to be solid – you get the idea.

The point is, the U.S.-China trade dispute is important, but not the be-all and end-all. It's something to keep an eye on, but *not* something to overreact to. If history is any judge, there will be a lot more twists and turns to this story. A lot can change over the next few weeks and months.

SEVEN: ***This is an opportunity to practice discipline.***

The markets are in the habit of jumping at the slightest sound – but we're not. We rely on the news to stay informed and up-to-date, but *not* to dictate our every decision.

As a financial advisor, I can't tell you what President Trump will do, or what China will do, or whether a trade war will happen. I *can* say that we'll keep seeing a *lot* of headlines on this. Remember the see-saw metaphor? As the situation develops, it's not unlikely the markets will continue to rise and fall as investors digest the news coming out of Washington. For that reason, it's wise to expect more volatility – but let's bear in mind that *volatility* doesn't equal *catastrophe.*

All this means is we here at Capstone Pacific have a wonderful opportunity to practice discipline. To avoid getting caught up in the day-to-day. To not let headlines – and the emotions they evoke – control us. The more we do this, the more we'll keep moving toward our goals. If you'd like a second opinion on any of your investments, we'd be glad to take a look.

Casey's Corner

-By Casey Morris, CFP®

WHAT IS A FIDUCIARY?

Everyone wants the auto mechanic who is willing to say, "We'll keep an eye on this, but I *don't* recommend you replace this part on your car right now. Why spend money when you don't absolutely have to?"

No one wants a mechanic who is always trying to urge you into buying that high-priced part or upgrade when it's not absolutely necessary. That's because the first mechanic *has your best interests in mind.* They're not trying to wring as much money from their customers as they can; they're trying to ensure the customers are always on the road, happy and taken care of.

As your financial advisors, we've always tried to be like the first mechanic. Every service we provide or recommendation we make is done with your best interests in mind. In fact, there's a word for what we are: **fiduciaries**. In the financial services industry, advisors who adhere to the **fiduciary standard**, like us, *must* put their clients' interests before their own. Even if the advice an advisor gives is *less good* for the advisor, they must give it if that's what is best for the clients they serve.

It may seem like a simple thing, and it is. But for a long time, most financial services professionals were *not* required to adhere to this standard. Instead, they were required to follow a simple **suitability standard**. This means they were only expected to make recommendations considered "suitable" for their clients. To put it bluntly, this allowed advisors to give advice that was primarily in the *advisor's* best interest, and *not* the client's best interest, so long as that advice could still *technically* be considered "suitable."

Now, you're probably wondering why I'm telling you all this. That's because there have been some recent changes to our industry that you should know about.

Back in 2015, former President Obama called on the Department of Labor (DOL) to update certain regulations regarding the financial services industry. The end result was a new rule commonly known as the "DOL Fiduciary Rule." Simply put, this rule requires all financial advisors to **act in the best interests of their clients when giving advice on retirement accounts**. In other words, all advisors who provide advice on retirement accounts have to act as fiduciaries.

You may have heard about all this on the news, or maybe you heard a friend or family member talking about it. It's even possible that other financial advisors have reached out to you. (And why wouldn't they? You're a wonderful person to work with!) But whether you've heard about this before or not, there are a few things you should know:

First, we have always been fiduciaries. For this reason, the new rule does not affect us. As a CERTIFIED FINANCIAL PLANNER™ and also structuring our company as a Registered Investment Advisor, we have always been required (and wanted to) hold ourselves to the fiduciary standard. We don't have to make any changes to the way we do business, because we decided long ago that this was the direction the industry was headed. That this was the direction it *should* head.

Second, it's one thing to say we've always been fiduciaries, but we know we have to prove it. Here are a few ways we try to prove it to you every day:

1. We are compensated through fees instead of commissions in our advisory accounts. Instead of being compensated every time we make a trade (which can incentivize advisors to make unnecessary trades to get paid more), we are compensated based on a percentage of the assets we manage. Thus, we only succeed by helping *our client* succeed, not by trying to wring as much "paying activity" as we can.
2. We offer a financial plan to every one of our advisory clients. We believe strongly that all investment recommendations should be made as part of an overall financial plan. Furthermore, a good plan should encompass a person's entire financial life, not just retirement. For us, a plan is the basis for all the recommendations we make, because it ensures that piece of advice leads directly to the financial goals.
3. We are upfront about the services we provide. We don't seek compensation for many of those services, but we do them because *they need to be done*. From the start, every client we serve knows exactly what we do and what we don't do, so that there are always have clear expectations of *us*.
4. We contact our clients regularly. Our goal has always been to send a written messages every month or so, combined with regular phone calls and meetings throughout the year. Even when the sun isn't shining. We also strive to be there when times are tough. We're happy when our clients are happy—and we sweat when they sweat.

You may have heard us call ourselves fiduciaries before. Now you know why. We do it because we're so passionate about helping clients work toward their financial goals. Because there's no greater feeling than being of service.

The Planning Perspective

-By Jon Teran, CFP®

One of the greatest honors in my life has been to work for a company like Capstone Pacific. We started Capstone in 2011 with the sole purpose to act as fiduciaries who provide financial advice and investment management that is in the best interest of our clients. I am proud to say that I truly believe we have created a company and culture here at Capstone that treats others the way we would like to be treated.

It's been no small accomplishment to get to where we are today as a firm. When I first went to work for Bryce in 1998, we were with a major broker dealer. While Bryce had a long and successful career at this broker dealer, in 2000 Bryce felt that it was time for the next step and we joined an independent broker dealer so that we could have even greater flexibility in providing client focused solutions and investment management. After about 10 years with independent broker dealers, we became convinced that the best way to serve our clients was with a private and locally owned company, and in 2011 Bryce founded Capstone Pacific.

I've learned and experienced a lot in my time working with the folks here at Capstone. From the Internet Bubble and crash, the recession of the early 2000s, the financial crisis of 2007/2008, the Great Recession that followed, to where we are today with one of the longest bull markets in our country's history and now this historic stock market volatility—we've experienced quite a bit. Probably the most valuable lesson I've learned as far as investing is concerned is the importance of a disciplined strategy that is consistently revised and applied over time. I've become more and more convinced that when it comes to investment success there are no magical off the shelf "set it and forget it" solutions (such as "buy and hold"). Instead, I've become firmly convinced that an investor's best bet is to try and stack the odds in their favor with proactive tactics and strategies that are responsive to today's market and economic realities.

From the people, the company, the culture, the strategies and our clients, this has been an amazing journey. This is why it is so hard to say goodbye. An opportunity has come along for me work elsewhere in our industry and starting July 2018, I will no longer be with Capstone Pacific.

Given my experience at Capstone, I never dreamed I'd be moving on and making a change. Something else I've learned working at Capstone and meeting with clients over the years and helping them with the financial aspects of their lives, including major changes in their lives, is that there is a time for everything, including change. While I am very sad to be moving on, as I reflect back on the last 20 years, my heart is also filled with gratitude.

Thank you to Bryce for being an incredible mentor, boss and friend. I owe a lot to you for the advisor and person I am today. Thank you to Casey, you've been a great co-worker these last 10 years. I've benefited greatly from your skills and perspective. Thank you to Cheryl for all your work behind the scenes helping us on our mission to serve our clients. I've appreciated every day I've had the chance to work with you. And thank you to our clients, for the opportunity to serve and work with you. It has been an honor.

I wish you all the best of success in your future endeavors.

Finally…

There are not enough words to say thank you to Jon for all of his hard work and dedication to our company over the past 20 years. We are convinced we've learned at least as much from him as he has from us. We admire his integrity and intense desire to do the right thing for not only his business relationships, but everyone else as well.

It feels sort of like losing a family member but we are grateful to have an abundance of wonderful memories from our association together. We are excited for this opportunity for him and his family and support him completely.

We are happy that we have structured Capstone Pacific the way it is today so that we can continue to provide that same level of service that you are accustomed to. We are right here working away watching your money and following our strategies.

Thank you again for your business, we look forward to our next meeting or conversation with you.

Sincerely,

The Team at Capstone Pacific

P.S. If you ever run across anyone who could use our services, we always appreciate it when you pass on our name.

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[1] "All the Goods Targeted in the Trade Spat," *The Wall Street Journal*, April 5, 2018. https://www.wsj.com/articles/a-look-at-which-goods-are-under-fire-in-trade-spat-1522939292

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[3] "How to avert a trade war with China," *The Brookings Institution*, February 27, 2018. https://www.brookings.edu/blog/order-from-chaos/2018/02/27/how-to-avert-a-trade-war-with-china/

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[5] "Stocks Drop on Growing Trade Concerns," *The Wall Street Journal*, April 6, 2018. https://www.wsj.com/articles/trumps-new-tariff-threat-drags-down-stocks-1522981574