

# FLAGSTONE

FINANCIAL ADVISORS, INC.

## MARKET REVIEW THIRD QUARTER 2018

### ***What Happened:***

The 3<sup>rd</sup> quarter of 2018 marks the 11<sup>th</sup> straight quarter of rising U.S. wealth. Business sentiment and investor sentiment are at record levels. That optimism is translating to a robust market, with year-to-date gains of 10% through the end of September. Election anxiety, which normally dampens investment performance in midterm election years, is taking a back seat to investors' enthusiasm over the strong economy and solid corporate earnings growth.

In spite of recent market gains, stock valuations still appear reasonable because earnings have been growing faster than stock price increases. What's more, inflation remains in check and interest rates are increasing at a modest rate. Unemployment is low and wages are increasing. These are all positive factors that bode well for the market going forward.

International stock performance has lagged behind U.S. stocks, with a YTD return of -1.4%. Nevertheless, many analysts see great value in international stocks as their fundamentals appear very attractive. In fact, international stocks are now cheaper relative to U.S. stocks than any time in the past ten years.

### ***Third Quarter 2018 Performance:***

S&P 500 Index (large stocks)	7.7%
Russell 2000 Index (small stocks)	3.6%
MSCI EAFE Index (international stocks)	1.4%
Barclays U.S. Aggregate Bond Index (bonds)	0.0%

### ***Prognosis:***

Like most people, we are troubled by the political discourse in D.C. and the heightened emotional responses created by it. However, as investors, we must use an objective filter when analyzing the current state of the economy and the markets. Objectively, we see a lot of room for optimism. Economic conditions are good and our old enemy, recession, is nowhere to be seen. Of course, we will continue to monitor the economic landscape, but for now we are positive about the prospects for the market.

*SCK*