# April 2018 Client-Letter

We are excited to announce that Ella Jettmar has joined us as a Client Services Associate in March. She will be the voice answering the telephone and helping you. She cannot input trades, answer financial questions or make distributions due to the regulations for firms like ours, but she will take a message for you if we are not available. We look forward to you all getting to know her in the coming months.

## Goals

We provide financial planning (goal setting/attainment) and investment management to our clients and thought a discussion of goals might be helpful. A study of goals was allegedly conducted on a graduating class from Harvard in the 1950's which showed only 3% had written goals, and it wasn't long before they controlled over 90% of the class's wealth.

It may or may not be true, but goals are important because they give us clarity and purpose–something to accomplish. Goals should be quantifiable and measurable. Sometimes, goals require us to step outside of our comfort zone, but they have to be realistic and attainable.

We can benefit from setting goals for many parts of our life–career, family, personal, and health. If we set the goals too high initially, they will appear insurmountable. Our job as your advisor is to help you set, achieve and update your goals along your path.

As someone who advises you on financial matters, one of our objectives is to uncover your financial goals and how they match your life. The plan created allows you to walk the path to achievement. The goal is your destination but not the end of the journey. Once we have the destination in mind, we all need a roadmap that will get us there.

### Specifics

During our meeting with clients, we often discuss goals for savings, specific purchases, college education for children or retirement. These goals require you to give up something today to achieve a specific result later, or a delayed gratification from your efforts.

As we often discuss with you, the basis of everything is how much cash comes to you and how much you spend. The budget is the basis for spending and provides a guideline that helps you understand your cash needs and uses.

We encourage you to take time and customize your budget to your personal situation on a spreadsheet or by using our Personal Financial Management Tool, eMoney. This tool allows you to create a budget and track your actual spending versus the budget using actual transactions. If you are married, it's important you work together as a couple to develop a blueprint, one you are both comfortable with. Should you want to use eMoney, please contact our office to discuss.

As you begin to track the inflows and outflows during the months, you will begin to understand the specifics of your budget. The use of debit and credit cards has resulted in a loss of our connection to our money. If you only had cash to spend each month, there would be a direct connection with your spending since it would be visible as you use your cash.

Your spending plan enables you to free up funds for savings that are needed to reach your financial goals. Once you can see your free cash flow, you can begin setting goals to achieve. An overriding goal for many is to have money left at the end of the month rather than have no money left at the end of the month. Most of us cannot control how much we make (most incomes are fixed for a year or so), but we can control how much we spend.

Once you have a good understanding of your cash flow, you can make decisions about delays or elimination of certain spending, allowing you to work toward specific goals. Many of our clients want to pay off student loans or credit card debt. The development of a debt repayment plan that starts with higher interest rate credit cards is a specific goal.

We see others who develop a goal for a rainy day (emergency) fund, down payment on a house, home repairs, education planning to get their children through college or technical school without debt, and the goal we all have of supporting ourselves after we stop working -- the retirement plan.

**Bottom line**

Saving for the future takes discipline, but it doesn't have to be a hard slog. As you progress toward your goals achievement you create your own sense of accomplishment and satisfaction. That said, don't forget to reward yourself along the way with a nice dinner or an inexpensive weekend trip once you accomplish a goal.

We are here to help you complete, monitor and make changes to your financial plan (goals). As you have heard us say over and over, the best time to start is today.

## The Financial Markets

Last year, stocks marched higher with only minor pullbacks. When the year ended, the largest peak to trough decline for the S&P 500 Index was just under 3% (St. Louis Federal Reserve data on the S&P 500). It was a year that lacked turbulence and one that rewarded diversified investors.

Since the beginning of February, volatility has returned. It's a reminder that periods of relative tranquility don't last forever. In our opinion, it's something that the long-term investor should look past, although we recognize it creates uneasiness among some investors.

If we were facing serious economic problems, something that might be signaling a recession, it would be a cause for concern. Here are a few factors that will support stock prices.

- First and thanks in part to the tax cut from December of 2017, corporate profits are forecast to rise nearly 20% this year (Thomson Reuters).

- Weekly first-time claims for unemployment insurance recently touched a level not seen since the late 1960s (St. Louis Federal Reserve). It's a concrete sign that companies don't want to lose employees. If business conditions were deteriorating, the opposite would be true.

- The Conference Board's Leading Economic Index (designed to detect emerging trends in the economy), just hit a new high. I know we are facing some challenges (we always will), but the economic fundamentals are solid right now.

- Coupled with rates that remain at historically low levels, the fundamentals have cushioned the downside, in our view, and remain supportive of shares.

**Causes of volatility**

Our role as your advisor is not to offer up opinions on political issues. However, it is incumbent upon us to analyze and share thoughts on headlines that are influencing the markets. It's not a political statement. It is a commentary on events viewed through the narrow prism of the market.

In recent months two issues have surfaced that have stirred up volatility. President Trump announced he will impose steep tariffs on steel and aluminum imports, fueling concerns over protectionism and the potential impact on the economy. His stated goal was to open foreign markets to U.S. exports.

Investors viewed the corporate tax cut and the paring back of regulations favorably. Trade tensions, however, have created uncertainty. Free trade is a net benefit to the U.S. and global economy and is supported by economists worldwide, but "net benefit" means there are both winners and losers.

Losers–those whose jobs disappear amid a flood of cheaper imports. Winners–consumers who pay less for various goods, and those who work in export-oriented industries. In 2017, U.S. exports totaled $2.3 trillion (U.S. Bureau of Economic Analysis). Yes, that's trillion with a "T."

The free trade versus fair trade topic is highly debated. U.S. manufacturers are consumers of steel and aluminum, including farm and construction equipment, aerospace, and pipelines and drilling equipment in the energy industry. At the margin, it may modestly boost inflation and could force some U.S. manufacturers to put projects back on the shelf or move production offshore.

Additionally, U.S. tariffs may invite retaliation, pressuring exporters, jobs and profits in globally competitive sectors. It could also spark a trade war that hurts everyone.

As the month came to a close, Trump announced he is set to raise tariffs on Chinese imports. In return, China announced new barriers to some U.S. goods, though the response was measured. While the odds of a major trade war remain low, all this speculation of tariffs has injected uncertainty into market sentiment.

Meanwhile, troubles popping up in the tech sector have added to volatility. For example, Facebook is embroiled in a controversy over privacy and data sharing. More recently, Trump has set his sights on Amazon, expressing his displeasure in several tweets. Yes, they are only two stocks, but both have performed admirably, leading the tech sector higher. Combined, they have a market capitalization of $1.1 trillion (*WSJ* as/of 4.3.18).

**Perspective**

We provided an explanation for the recent volatility because we believe one is in order but, let us caution you not to get lost in the weeds. In past letters we have discussed why uncertainty is not good for the markets in the short term. Day traders care about minute-by-minute swings in stock prices. Long-term investors sidestep such concerns.

So, let's step back and gather some perspective by reviewing the data.

According to LPL Research—

- The average intra-year pullback (peak to trough) for the S&P 500 Index since 1980 has been 13.7%.
- Half of all years had a correction of at least 10%.
- Thirteen of the 19 years that experienced an official correction (10% or more) finished higher on the year.
- The average total return for the S&P 500 during a year with a correction was 7.2%.

These bullet points are an evidenced-based way of saying turbulence surfaces from time to time. Patient investors who don't react emotionally have historically been rewarded. We understand that some degree of risk is inevitable, but our recommendations are designed to minimize risk while keeping your long-term goals in mind.

Our advice is to pay attention to the economic and earnings reports for an indication of the longer-term direction of the stock markets. As long-term investors using strategies based on your risk level and your plan, the worrisome day-to-day movements should not be your focus.

We hope you've found this review to be educational and helpful. If you have any concerns or questions, let me say this one more time–please feel free to reach out to us, that's what we are here for. We are looking forward to seeing many of you in the coming months. As always, we are honored and humbled that you have given us the opportunity to serve as your financial advisors.

Sincerely

Quintin & Ginny
April 11, 2018