

FIRST QUARTER – 2019 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:

Index:	1Q19	2019
S&P 500	13.65%	13.65%
S&P Mid-Cap	14.49%	14.49%
S&P Small Cap	11.61%	11.61%
Morgan Stanley's EAFE (International Stocks)	9.98%	9.98%
Barclay's US Aggregate (Bonds)	2.94%	2.94%

ECONOMY & MARKETS:

The stock market surprisingly had a significant turn-around in the first quarter. We mentioned in the last newsletter, “*arguably, there is a disconnect between the markets and where the domestic economy is at this point*” meaning the stock market had potentially over-corrected. One could argue the same thing today, with the market at today’s levels being potentially slightly overvalued. As a result of this recent rise in the S&P 500, the 12-month forward price-to-earnings ratio is now approximately 16.7, slightly above the five-year average of 16.4. With that said, we still do not believe a recession is on the near-term horizon and have also witnessed a few significant changes on the positive side for what were major concerns a few short months ago. First, the Federal Reserve (the Fed) has done a complete “about-face” in terms of its projected interest rate path. Back in December, it was forecasting two more rate hikes in 2019. Then, at its first quarter meetings, their consensus forecast reversed course and now is no longer projecting a rise in rates for 2019. Many major Economists are even arguing the Fed’s next step will be to lower interest rates. In our opinion, the Fed raised rates at least one too many times. Because of the stock market volatility in the fourth quarter and this sudden shift in the Fed’s forecast, interest rates have changed dramatically in the last six months and we are now in an inverted yield curve situation. Traditionally, an inverted yield curve has been a very strong indicator of a recession in the upcoming months ahead. While again, we still do not see underlying economic numbers that would cause us to have major concern of an upcoming recession, the inverted yield curve is causing us to take a cautious approach. Second, the budget impasse was at least temporarily resolved. Third, there does appear to be headline news of the U.S. and China resolving trade tensions. It also appears as if the stock market is now factoring the future positive effects of these topics on corporate earnings. Meanwhile and according to Factset, Wall Street Analysts lowered estimates for corporate earnings at a much faster pace as compared to a variety of historical averages. This is all coming at a time where year-over-year corporate earnings’ growth is projected to slow from approximately 20% to a now decreased 3.4% in 2019 (and possibly negative for the first quarter) and the stock market is re-approaching its all-time high. **With the combination of both positives and negatives listed above, our overall recommendation is to stay the course and adjust asset allocations as necessary for one’s complete circumstances.**

The most recent GDP report was its third and final report for the fourth quarter 2018. In it, the quarterly GDP figure came in slightly below expectations at 2.2% which gave the entire year’s growth to be 2.9%. As noted in the last newsletter, after this July, the economic expansion will enter its 11th year, making this the longest U.S. expansion in history. The latest unemployment report continues to show strong hiring and held steady at a low 3.8%. Inflation continues to remain tame with the latest year-over-year CPI coming in at 1.9%.

Schwab Keyfobs - a must!

We are once again, strongly encouraging all of our clients to call Schwab at 1-800-515-2157 and order a keyfob. The keyfob can be sent to you in the mail and looks like a small keychain type device or it can be obtained as an App version for your cell phone. When you press the keyfob button, it generates a random six digit code that needs entered after your existing password. Afterwards, it will be electronically mapped to your login. It is free to order and if you lose it, Schwab will replace it or provide you with a temporary code valid for “X” amount of days. Unfortunately, Schwab does not permit the Advisor (us) to order the keyfobs for our clients.

The reason we are once again highlighting this in our newsletter is that in early 2019, two of our clients nearly fell victim to fraudulent activity (on non-Schwab accounts). The first received an impersonated phone call from the IRS. The fraudster told our retiree client that she would be losing her Social Security and somehow nearly convinced her to wire money to a foreign country. Thankfully, an alert retail bank manager knew her and stopped this from occurring. The second was with a client who is still employed with a small private company. Somehow, a fraudster completed his company’s 401k rollover form, faxed it to the benefits administration group (containing his signature and other personal information) requesting an early distribution wired to a foreign bank. After nearly not doing so, the company’s benefits administration person contacted our client, which ended the perpetrators’ efforts.

While neither of these two specific situations dealt directly with Schwab assets, having that keyfob provides a much more secure second layer of protection against extreme situations from occurring.

Investment Questionnaire:

This quarter, we decided to include a small investment questionnaire for people to test their general financial knowledge (answer ledger on page three):

1. What is the age to which one is eligible for Medicare?
A. 62 B. 65 C. 66 D. 66 and 6 months E. 70
2. At what age is one normally eligible to start taking their Social Security Benefits?
A. 62 B. 65 C. 66 D. 66 and 6 months E. 70
3. At what age is one required to start taking their Social Security Benefits?
A. 62 B. 65 C. 66 D. 66 and 6 months E. 70
4. In general, if interest rates go down, then bond prices...
A. Go down B. Go up C. Are not affected
5. How many times did the Federal Reserve move interest rates downward last year?
A. 0 B. 1 C. 2 D. 3 E. 4
6. What is a reasonable long-term average return that can be expected from a broadly diversified 100% stock portfolio in the long-run?
A. 5% B. 10% C. 15% D. 20% E. 25%
7. Registered Investment Advisors (such as YAIA and opposed to Investment Brokers) are considered Fiduciaries. What must a Fiduciary do?
A. Offer suitable investments B. Place the client's best interest ahead of its own.
C. Use mutual funds D. Register with the IRS
8. Benefits to a Roth IRA include which of the following:
A. Tax deduction on the contributions B. Tax deduction on the withdrawals
C. Tax-free withdrawals D. Anyone can invest in a Roth IRA
9. Moving money from a Traditional IRA to a Roth IRA is called:
A. Contribution B. Contrarian
C. Conversion D. Continuum
10. Which of the following are typical mutual fund share classes that Brokers will use to collect commission?
A. Class A B. Class B
C. Class C D. Class D
11. In theory, when a stock pays a cash dividend, what is the effect on the stock price?
A. Nothing B. That stock should rise by the amount of the dividend.
C. Depends on the company's competitors dividends D. That stock should fall by the amount of the dividend.
12. High yield bonds are also called:
A. Investment Grade bonds B. Corporate bonds
C. Asset-Backed bonds D. Junk bonds
13. At YAIA, client assets are most commonly held at Schwab Institutional. What is Schwab considered?
A. Investment Advisor B. Lawyer
C. Investment Broker D. Custodian
14. XYZ stock has a Beta of -2. If the market were to go up by 2%, what change in price would you expect? (CFP Test question, Ha!)
A. Increase 2% B. Increase 4% C. Increase 8% D. Decrease 2% E. Decrease 4%
15. After one receives their keyfob from Schwab, what is next step?
A. Enter the code in place of my Schwab password B. Enter the code after I input my Schwab password.
C. Enter the code after I input my login D. Don't need it; identity theft is not for real

1. B
2. A
3. E
4. B
5. A
6. B
7. B
8. C
9. C
10. A, B, C
11. D
12. D
13. D
14. E
15. B