

# STRATEGIC *Insights*

## Section 1: Market and Economy

This quarter, the Strategic Income Group Investment Committee met with the following companies: JPMorgan, Columbia Threadneedle, PIMCO Investments, Direxion, Goldman Sachs, and AllianceBernstein.

In addition to meeting with these companies, the committee reviewed research from many other companies and outputs from our technologies to determine the most appropriate investments and advice for our clients.

### Capital Market Outlook

The normal time horizon for the capital market outlook that the investment committee focuses on is 12 to 18 months. This quarter the consensus outlook from our investment managers was that a recession is looming; however, just beyond our 12-to-18-month time frame. The committee voted to adjust three of our outlooks.

After the large sell-off in U.S. equities in the fourth quarter of 2018, the committee was more bullish in the first part of 2019 that U.S. equities would make a comeback. They did just that and are now trading near all-time highs again. Now that this movement is priced back into the domestic equity markets, the committee has reduced U.S. equities from a slightly overweight view back to a neutral view.

		Strategic Income Group Current Views (Q3 2019)				
		Bearish	Slightly Bearish	Neutral	Slightly Bullish	Bullish
Capital Market Outlook				X		
		Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Equities	U.S. Large Cap			X ←		
	U.S. Mid Cap		X			
	U.S. Small Cap		X			
	International	→	X			
	Emerging Markets			→	X	
Fixed Income	U.S. Government				X	
	U.S. Investment Grade Corporate			X		
	U.S. High Yield		X			
	International			X		
Alternatives						X
Cash				X		

*Please Note: These are 12- to 18-month views from the published date of the applicable commentary. Arrows represent movement from Q2 2019.*

European Central Bank (ECB) president, Mario Draghi, has signaled to the markets that they remain willing and able to add more stimulus to the economy. The international equity markets have rebounded with this news. However, major risks still exist within developed international equities. While this stimulus might provide a short-term bump, it also signals the long-term weakness of their economies. Thus, the committee adjusted our stance from a full underweight view to a slightly underweight view on developed international equities and moved the emerging market equities from a neutral view to a slight overweight view.

### **Tariffs and Trade Wars, Oh My**

The talk of tariffs and trade wars has dominated the headlines over the last six months. Two questions: Why is this happening and how long will it go on?

To answer the first question, you must look at the growth of the different economies. Per the OECD Development Centre, in 2000, both China and India each represented about 1% of the global middle-class consumption while Japan, the U.S., and Europe combined for a total of 69%. By 2050, Japan, the U.S., and Europe is expected to only make up 12% of the global middle-class consumption. This drastic decrease will have countless additional impacts on our economies and challenges our leadership position in the world. In addition, the growth of countries like China has been funded by the trade policies that have shaped the last few decades. For any U.S. product sold in China, there has been a 27% tariff. However, any Chinese product sold in the U.S. has only had a 2% tariff attached.



While these new tariffs have had a larger impact on the Chinese economy, it is likely that the U.S. has more of a timing issue when it comes to negotiations. Considering 2020 is a presidential election year, the Trump administration is unlikely to want tariffs and trade wars overshadowing their campaign and would likely prefer this settled well before the end of the first quarter of 2020.

### **The Fed, Rates, and Our Future**

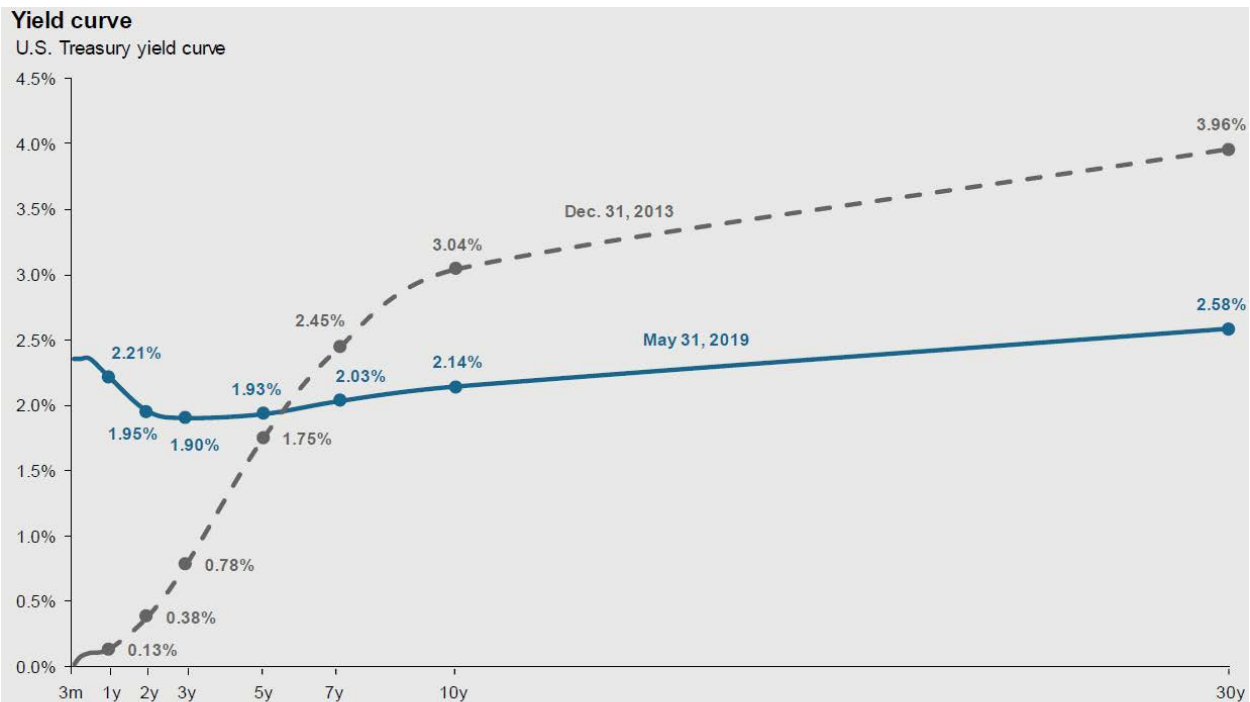
As it has been said, “Bull markets do not die of old age, rather they are killed by the Fed.” Unlike past economic cycles, Fed Chairman Jerome Powell has many more tools in his toolbox. Rather than just adjusting the overnight rate, now with the creation of quantitative

easing (printing and injecting money into the economy), the Federal Reserve might be willing to use these tools at their disposal.

It becomes very difficult to read the tea leaves as we are in uncharted water. A case could be made that we are 18 to 30 months from recession and another case could be made that the Fed could navigate the waters with precision and allow the U.S. economy to continue to expand for years into the future.



It is true, however, that as the Fed has raised rates, some (not all) of the yield curve has become inverted (see chart below).



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.  
Guide to the Markets – U.S. Data are as of May 31, 2019.

The numbers that have historically been the most accurate in forecasting upcoming recessions come from when the 2-year rate is trading above the 10-year rate. This part of the curve has not inverted yet; however, the committee continues to watch this closely.

As you can see in the chart from LPL Research on the next page, when the 2-year and 10-year invert, that does not signal immediate danger. In fact, over the last five times this happened, you were on average almost two years away from an actual recession and the

S&P 500 continued to rise an average of 12.7%.

AN INVERTED YIELD CURVE ISN'T TROUBLE IMMEDIATELY			
2-10 Year Yield Curve Inverts	Recession Starts	Months From Inversion to Recession	S&P 500 Price Return From Inversion to Recession
08/18/78	02/01/80	17.7	9.9%
09/12/80	08/01/81	10.8	4.3%
12/13/88	08/01/90	19.9	28.5%
05/26/98	04/01/01	34.7	6.1%
01/31/06	01/01/08	23.3	14.7%
Average		21.3	12.7%
Median		19.9	9.9%

Source: LPL Research, FactSet, NBER, 07/05/18

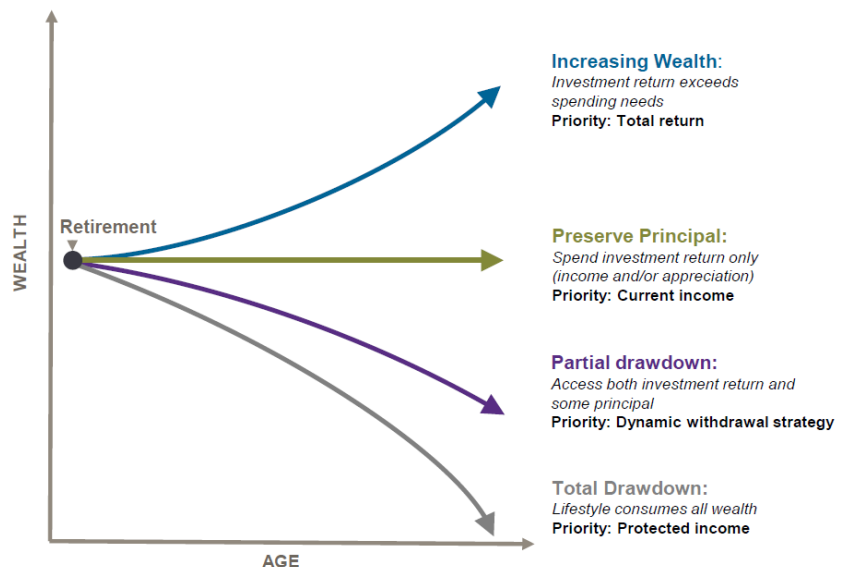
## Section 2: Practical Applications

### What Is Your Wealth Goal?

It has been said that two 70-year-old couples, with the same amount of money, same income, and same expenses might have drastically different portfolios and recommendations built out in their respective financial plans.

At Strategic Income Group, we believe this to hold true. Of course, one of the largest impacts to our financial plans is longevity. While none of us know when we will meet our maker, it can have a huge financial impact, especially on a surviving spouse.

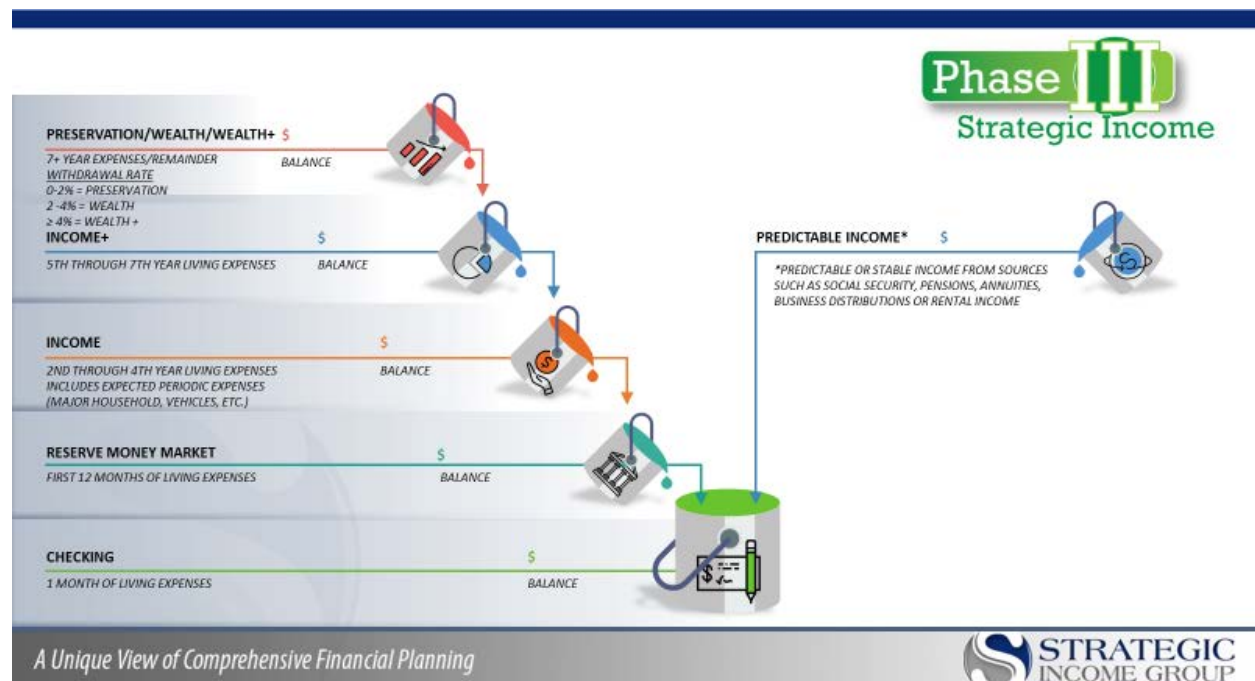
Another major variable is how much you want to leave to your family, kids, or other beneficiaries. This is a factor to spend a decent amount of time and thought on. As you can see to the right, the 70-year-old couple that wants to increase their wealth through their lifetime so as to leave the largest inheritance to their children will need a portfolio and plan that looks drastically different than the 70-year-



old couple that is fine with total drawdown and the thought of having “the last check bounce.”

### Give Every Dollar a Purpose

It is for these reasons and the discussion above that we have developed a financial plan to meet those clients’ goals that have embraced and given proper time to their financial plan. By allocating the specific dollar amount to the appropriate accounts and investments, it allows every dollar to work as hard as it is able (risk-adjusted return) given the time frame in which it is needed.



In addition, by understanding what our clients’ wealth goals are for inheritance or even what their minimum net worth goal is over their lifetime, we are enabled to properly allocate those investments in the top bucket to increase the likelihood of meeting their goals and objectives.

### In Closing

In the last six years since Strategic Income Group has opened its doors, we have prided ourselves on our core values:

- **Trusted Advocate** — Having a lifetime commitment to our clients’ best interests.
- **Discipline** — Having an unwavering commitment to the “Three Phases of Wealth” financial planning process.

*Strategic Income Group LLC Is a Registered Investment Adviser  
 © 2019 Strategic Income Group LLC All Rights Reserved*



- **Pursue Excellence** — Constantly improving as an organization.

Whether it was the **Reserve Accounts** to help clients avoid reverse dollar-cost averaging that we implemented in **2014**, or the purchase of **Certified Fiduciary Services** in **2016** to help clients with their estate planning needs, or the creation of **Strategic Tax** in **2018** to give clients that “one-stop shop,” or the rollout of the **bucket strategies** and our **equity risk mitigation strategy** that was rolled out in the first quarter of this year, we have never stopped — and will never stop — striving to improve our organization while keeping *you*, our loyal clients, at the center of all we do.

To dive deeper into how your wealth goals should impact your financial plan and portfolios, please schedule a meeting with your CERTIFIED FINANCIAL PLANNER™ professional by calling (480) 466-7070.

## What Are Investment Manager Meetings?

At Strategic Income Group, we believe in reviewing detailed investment research. Every 90 days we set aside a week during which around 7 to 10 investment managers give us recommendations on our current portfolios as well as share their firms’ current views on the market and economy. This recap is our commentary on the most recent meetings.



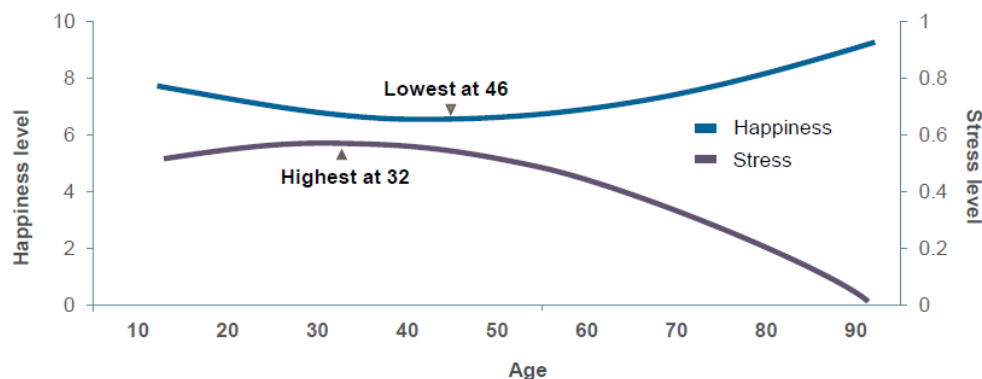
If you need help with your tax return or need to file an extension, Strategic Tax is here to help.

**(480) 466-7070**

## Interesting Facts

- Since 1750, inflation has averaged 1.7% with prices no higher in 1940 than in 1795. (Columbia Threadneedle, 12/31/2018)
- The share of workers reporting that they expect to work past age 65 rose from 16% in 1991 to 48% in 2018. (Center for Retirement Research)
- From 1981 through 2017, U.S. 10-year bonds had an average annual return of 8.3%, with losses in only 5 of those years. (Columbia Threadneedle, 12/31/2018)
- China is projected to overtake the U.S. as the largest middle class by 2020. India is projected to pass the U.S. in 2021 and then overtake China by 2024. (Columbia Threadneedle, 12/31/2018)
- In 2018, 93% of asset classes were negative. That's the highest percentage since 1901. YTD, 97% are up. (Columbia Threadneedle)
- The Federal Reserve has removed \$575 billion off their balance sheet, in essence taking it out of the economy since Janet Yellen announced the policy back in 2017. (Federal Reserve, 2019)
- What items are most likely to see price hikes? Among the items most likely to pinch consumers' wallets are lamps, vinyl floor tile coverings, air conditioning units, televisions, cameras, and mattresses. These are items in which the U.S. imports a large proportion from China. (Bankrate.com, May 24, 2019)

Levels of happiness and stress by age



### *Are You an Accredited Investor?*

1. Did you have an annual income of \$200,000 (or \$300,000 for joint income) for the last two years and have the expectation of earning the same amount or higher in the future?
2. Do you have a net worth exceeding \$1 million (excluding the value of your primary home)?

If you meet these criteria, you are considered to be an accredited investor. This allows you to have access to special investments not available to all investors. The Strategic Income Group Investment Committee has researched and screened out specific opportunities that might be right for you. Please contact your advisor to learn more.

### *Did You Know?*

Strategic Income Group has an official financial planning process called "The Three Phases of Wealth" designed to help you wherever you're at in your financial journey.

Visit <http://strategicincomegroup.com/start/> to learn and set some financial goals!

### *Questions?*

If you have any questions whatsoever regarding our investment manager meetings or any of the notes, give us a phone call or stop by our office:

**Strategic Income Group**  
Ph. (480) 466-7070

*East Valley Location:*  
2330 W. Ray Road, #3  
Chandler, AZ 85224

*West Valley Location:*  
20542 N. Lake Pleasant Road #119  
Peoria, AZ 85382

[StrategicIncomeGroup.com](http://StrategicIncomeGroup.com)



## Certified Fiduciary Services

Strategic Income Group's wholly-owned subsidiary company, Certified Fiduciary Services, Inc., is here to serve you and your family.

Certified Fiduciary Services provides a variety of estate and trust administration services that complement Strategic Income Group's offerings. Clients enjoy seamless financial services with the two companies working together.

Visit [CFSArizona.com](http://CFSArizona.com) to learn more today!

## Strategic Income Group Investment Committee

**Chad Manberg, CFP®**, Chairman

**Michael Gauthier, CFP®**, Vice-Chairman (past Chairman 2013–2018)

**Bob Stamm, CFP®**, Member

**Paul Macias, CFP®**, Member

**Martha Cortez, FPQP™**, Member