

STRATEGIC *Insights*

This quarter, the Strategic Income Group Investment Committee met with the following companies: Griffin Capital, AllianceBernstein, Salt Financial, Zacks Investment Management, FS Investments, Natixis, Multi-Funds, and Hartford Funds.

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

This quarter has been filled with quite a bit of noise — some news but little in the way of changes to actual fundamentals.

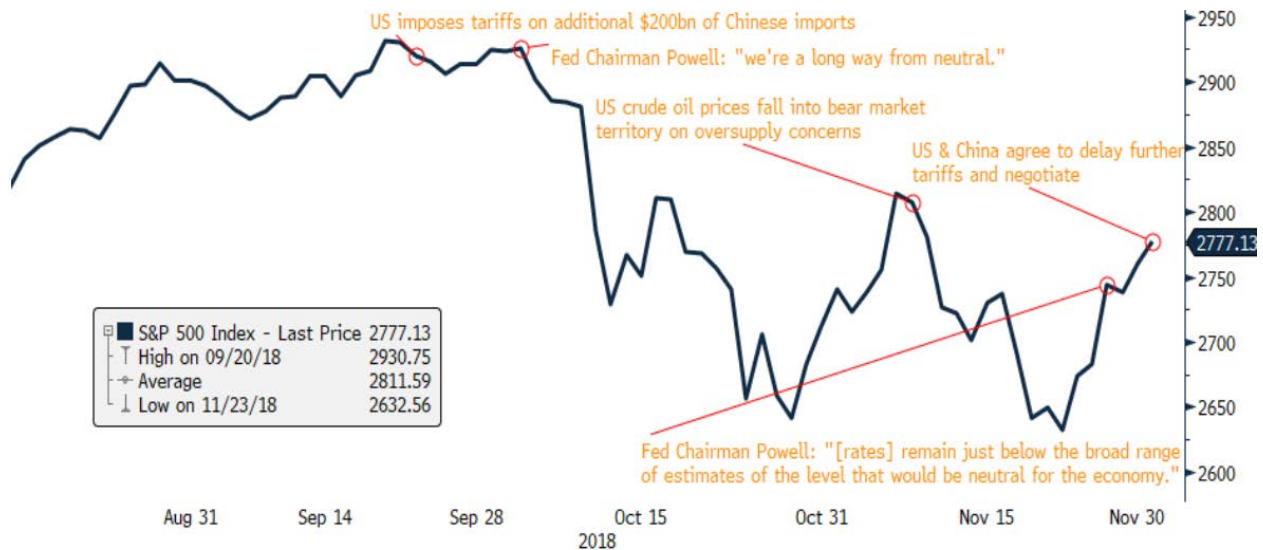
The committee's only change this quarter was moving the *U.S. Government fixed-income* view from *slightly underweight* back to *neutral* on the heels of recent comments from the Federal Reserve.

Back on October 3rd, the U.S. Federal Reserve Chairman said, "We're a long way from neutral." At that time the U.S. equity markets were at all-time highs. The U.S. had just imposed an additional tariff of \$200 billion on Chinese imports and the Fed had just moved the federal fund rate from 2.00% to 2.25%.

The market bears came out in full force and over the next month and a half, the U.S. equity indices were in correction territory.

		Strategic Income Group Current Views (Q4 2018)				
		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 Q3 '18.



Source: Richard Bernstein Advisors LLC, Bloomberg

Backtracking from his previous comments, Chairman Powell updated his stance from potentially needing to raise rates quite a bit more to a view that was seen as very bullish for equity investors when he stated that rates “remain just below the broad range of estimates.” With this, and with China and the U.S. agreeing to delay further tariffs (at least for now), you have the making of a nice rise in equity prices into the end of the year.

If you add to this the addition of corporate buy-backs as JPMorgan shows below, we could see some continued upside for the U.S. equity markets through the end of the year. Pretax corporate profits were up 10.3% from a year ago and up 19.4% after the recent tax cuts.



Thinking About Timing Your Trades Based on the News Noise?

While digging deep into the data can be interesting for some, many investors still get lost in the details. Our committee knows that market timing does not work.

In fact, if you tried market timing and only missed the 10 best days of investing in the S&P 500 — from January 1, 1998 to December 29, 2017 — your average rate of return would have dropped from 7.20% to only 3.53%. That's only 10 days out of almost two decades. Had you started with \$10,000 and kept it invested the entire time it would have turned into \$40,135; however, missing those important 10 trading days would have cost you about \$20,000 and you would have ended up with \$20,030.

Some investors believe that when the markets become more volatile it would make sense to move away from their investment strategy and sit in cash for awhile until things calm down. Consider this: *6 of the **best** 10 days from above occurred within 2 weeks of the 10 **worst** days!*

Taking Pulse of the Economic Risk Indicators

The committee's outlook and investment-based decisions are always grounded with a 12- to 18-month timeline. Due to this fact, we are driven away from the **noise** and back to the fundamentals.

		Third Quarter 2018	Second Quarter 2018
Financial	Yield Curve	↑	↑
	Credit Spreads	↑	↑
	Money Supply	●	↑
Inflation	Wage Growth	↑	↑
	Commodities	↑	↑
Consumer	Housing Permits	↑	↑
	Jobless Claims	↑	↑
	Retail Sales	↑	↑
	Job Sentiment	↑	↑
Business Activity	ISM New Orders	↑	↑
	Profit Margins	↑	●
	Truck Shipments	↑	↑
Overall Signal		↑	↑

↑ Expansion ● Caution × Recession

ClearBridge Investments continually updates the economic risk factors as seen in the chart on the previous page. You can quickly determine that overall, when looking at the key economic indicators, the economy is still in an expansionary period.

It is important to not just look at where we are in this given quarter but to also compare it to other time periods in the past. As you can see below, the current pulse of the economy looks very healthy and nowhere near what the indicators look like during a recession.

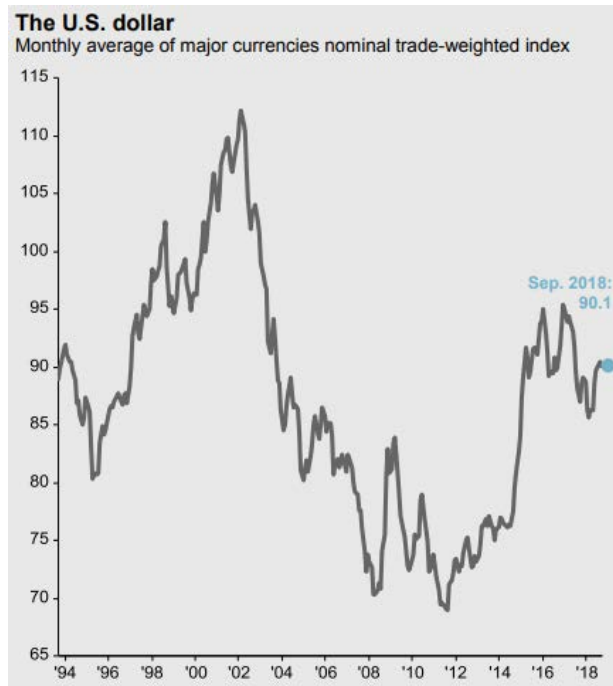
		Recession							
		Current	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Financial	Yield Curve	↑	×	×	×	×	×	×	×
	Credit Spreads	↑	×	×	×	×	×	↑	●
	Money Supply	●	×	×	×	×	×	×	×
Inflation	Wage Growth	↑	×	×	×	×	×	×	×
	Commodities	↑	×	×	×	×	●	●	●
Consumer	Housing Permits	↑	×	●	×	×	×	×	×
	Jobless Claims	↑	●	×	×	×	×	↑	×
	Retail Sales	↑	×	×	×	×	×	●	×
	Job Sentiment	↑	×	×	×	×	●	●	●
Business Activity	ISM New Orders	↑	×	×	×	×	×	×	×
	Profit Margins	↑	×	×	×	×	×	●	×
	Truck Shipments	↑	●	×	×	×	×	n/a	n/a
Overall		↑	×	×	×	×	×	●	×

↑ Expansion
 ● Caution
 × Recession

International and Emerging Markets

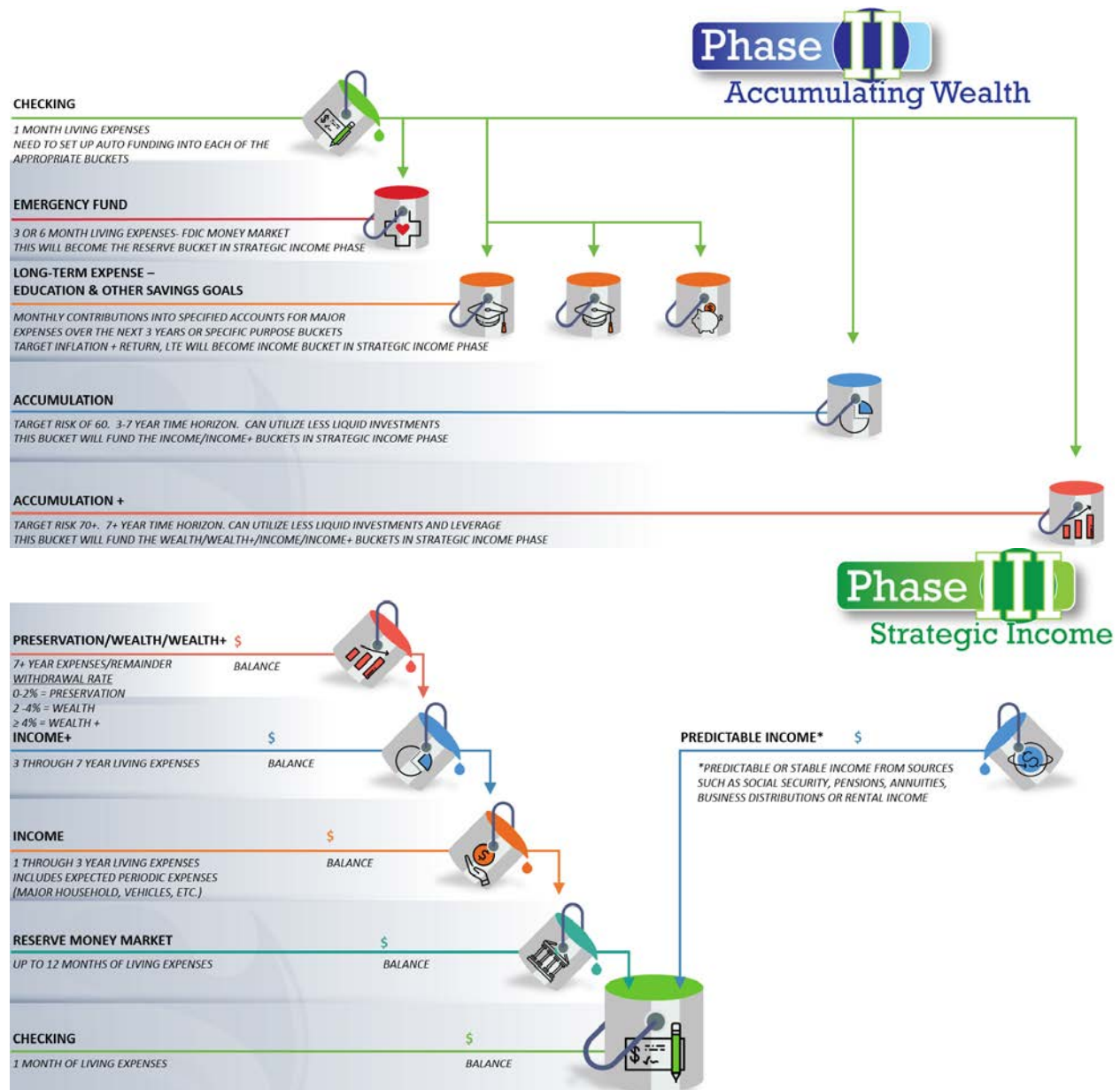
Both international and emerging markets have been hit hard with the rise of the U.S. dollar. International investing continued to be a favorite area of overweight by the managers that we met with this quarter.

The collective view is that fundamentally they still look good. However, they have been hurt with the unanticipated rise of the dollar this year. It was also believed that with the Fed is showing signs of slowing down their rate increase (weaker dollar) and with the thoughts of China and the U.S. delaying further tariffs (weaker dollar) and starting up continued talks, it is likely that the dollar will fall in the coming months — giving international and emerging markets a boost.



In Closing

At Strategic Income Group, what goes on in the market and the economy are extremely important to us. It is not as important, however, to what goes on in the lives of our clients. Our ultimate goal is to help remove the burden of financial management so that our clients can focus on what matters most to them. To do this, we have some exciting new things we will be rolling out over the next several months. We have researched and created some new methods that will help manage all of our accounts in both the Accumulating Wealth Phase and the Strategic Income Phase. Please see below for a sneak peek.



If you do not have a meeting currently scheduled with your advisor, please contact our office to get it set up. You will likely be seeing some updates to your customized plan and our desire to give every dollar a purpose in your plan.



STRATEGIC TAX



Need to do some year-end tax planning?

Want to reduce the stress of getting your taxes done in the new year?

Strategic Tax is here to help.

(480) 466-7070

Are You an Accredited Investor?

1. Do you have an annual income of \$200,000 (or \$300,000 for joint income) for the last two years with 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.

Interesting Facts

- There were \$7.9 billion in sales for Cyber Monday. (Source: Zacks Investment Management)
- Wages are going up 2.78% on average growth right now. This is the highest since the 2008 financial crisis. (Source: AllianceBernstein)
- 74% of the U.S. fixed-income market does not trade every day. 8% trade 5 times or more and 18% trades once per day. It is all public debt. (Source: FS Investments)
- Since the end of WWII (1945), the S&P 500 has suffered 3 bear markets that sustained losses of at least 40%. The 3 bears are: (1) 48% drop in 1973–74, (2) 49% drop in 2000–02, and (3) 57% drop in 2007–09. (Source: BTN Research)
- On education, outstanding student loan debt in the USA was \$360 billion as of 3/31/05, doubled to \$720 billion as of 12/21/09, and now has doubled again to \$1.44 trillion as of 9/30/18. (Source: Federal Reserve Bank of New York)
- On not covering everything, Medicare beneficiaries are still responsible for an average of \$5,503 per year of “out-of-pocket” healthcare spending. That total is projected to increase to \$7,877 per year by the year 2030. (Source: Kaiser Family Foundation)
- An estimated 10,400 Americans will turn 65 years old each *day* next year (2019). This group represents the 9th year of 19 years of “baby boomers” turning age 65. An estimated 11,500 Americans will turn 65 years old each day in the year 2029. (Source: Government Accountability Office)
- The median sales price of existing homes sold nationwide increased 3.8% on a year-over-year basis through October 2018. That’s the smallest year-over-year growth in the median sale price in the USA since March 2012. (Source: National Association of Realtors)
- Financial companies, e.g., banks and insurance companies, were not added to the S&P 500 until 1976. That is 19 years after the index began tracking 500 domestic stocks in 1957. (Source: Standard & Poor’s)

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

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:

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