Aldridge
FINANCIAL CONSULTANTS, LLC
An Independent Practice

2nd Quarter Newsletter

August 2018

In advance, I apologize for the tardiness of this letter. Generally, I strive to get this out before the end of the month following quarter's end. More on that in the personal section.

Recent Market Performance

Below are the year-to-date results through June.

Stocks Index Total Returns Data as of June 30, 2018	YTD Results	10 Year Results
Dow Jones Industrial Average (DJIA)	**-0.73%**	10.78%
Standard & Poor's 500 (S&P 500)	2.65%	10.17%
Russell 2000 (Small US Companies)	7.66%	10.60%
MSCI EAFE in US $ (Europe, Australasia, Far East)	**-2.75%**	2.84%
MSCI Emerging Markets (in US $)	**-7.68%**	**-0.16%**
MSCI ACWI NR (in US $)	**-0.43%**	5.80%

Bonds - Total Returns Data as of June 30, 2018	YTD Results	10 Year Results
BarCap Municipal Total Return	**-0.25%**	4.43%
BarCap Aggregate Bond Total Return	**-1.62%**	3.72%

Mutual Fund Index Total Returns	YTD	10 Year
Data as of June 30, 2018	Results	Results
Large-cap Growth	12.34%	11.64%
Large-cap Value	**-2.68%**	7.64%
Small-cap Growth	11.57%	11.35%
Small-cap Value	1.31%	11.94%
World Allocation	-1.40%	4.72%
Foreign Blend	**-3.06%**	2.61%

Please see index definitions at the end of the newsletter. Source: Morningstar

*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

Financial & Investment Comments

The DJIA, S&P 500 and Russell 2000 indices ultimately ended in positive territory for the second quarter, after zigging and zagging on headline news, particularly toward the end of June. However, the DJIA return is still negative for the year-to-date. Volatility due to the threats of escalation on trade continues to be an overhang on the market, explains Ed Mills, Raymond James managing director of equity research and Washington policy analyst. In the past month, the administration has threatened an additional $400 billion worth of tariffs on Chinese goods, and reports circulated that the administration had planned to invoke an emergency economic power to restrict Chinese tech investment in the United States and implement export controls on technology transfers.

Uncertainty, in this case regarding global trade tensions, often leads to concern among investors. And it seemed investors were trying to digest somewhat conflicting reports of peak earnings, tariff threats and political divisiveness, shrinking yield spreads, lower unemployment and gradually rising inflation.

Foreign financial markets weathered an eventful month as well, as global tariffs hurt these traditionally more open economies. However, Raymond James European Strategist Chris Bailey believes that any lessening of these concerns – which remains very plausible – provides investment opportunities.

Here is a look at what's happening in the economy and capital markets, as well as key factors we are watching:

Economy

- "The U.S. economy is doing very well," according to Federal Reserve (Fed) Chair Jerome Powell. The job market has continued to tighten. Inflation, as measured by the core PCE Price Index, has moved up near the Fed's 2% goal.

- Monetary policy is still accommodative, and Fed officials believe that further gradual increases in short-term interest rates are likely to be warranted. The Fed is trying for a soft landing, a task that has been difficult to achieve in the past.
- Trade policy uncertainty has had a modest impact on the overall economy so far (more significant for some industries than others), but investors may fear that a broader trade war would be more disruptive to the U.S. and global economies.
- Real gross domestic product (GDP) growth is expected to have picked up in the second quarter, but comprehensive benchmark revisions (due July 27) may shift things around.

U.S. Equities

- Despite recent volatility, domestic equities have held up much better than the rest of the world with emerging markets getting hardest hit on trade tensions and the rising U.S. dollar. The emerging market index we track was down over 8% for the quarter.
- Economic activity and earnings remain pillars of support for the U.S. equity market. Second-quarter earnings season has begun, and the early results have been above expectations so far.
- Growth stock returns continue to greatly exceed Value stock returns as noted in the above charts. This won't last forever. At some point, growth stocks will get too "pricey."

Fixed income

- In three instances since 1986, the Federal Reserve has increased interest rates and their tightening ultimately led to an inverted curve that was then followed by a recession, but that pattern may not necessarily hold given some of the unique aspects of the current climate, explains Senior Fixed Income Strategist Doug Drabik.
- Drabik notes that it has been two and a half years since the Fed's first hike (December 2015) which is significantly longer than what led to the past three inverted curves. There is no guarantee we will invert the curve resulting in a recession or that we won't. The latest round of Fed hikes was preceded by more than seven years of zero interest rates and market effects spurred by quantitative easing.
- The most recent bond activity appears to be a reaction to headline news. Although some information, such as the potential trade war, is inflationary in Drabik's view, the safe haven trade into U.S. bonds is at least temporarily countering those effects. The U.S. market still has some of the highest bond yields in the developed world.

International

- Concerns about disruptions to world trade flows continue to build, particularly impacting emerging markets (e.g., the Indian rupee hit an all-time low against the dollar, and the Chinese stock market flirted with bear market territory), according to European Strategist Chris Bailey.

- In Europe, Germany experienced some unexpected domestic political instability as Chancellor Merkel faced a new challenge to her current political coalition.
- European economic reform efforts appear to be taking a slight backseat to discussions of potential trade tariff responses and internal regional debates such as immigration.
- Using conventional valuation criteria, both emerging and developed markets outside of the United States appear to be attractively positioned for medium-term capital growth and income investors. We continue to feel that client funds should be positioned in those areas. The past decade has not been yielded great results for most developed foreign markets and no returns if one looks to the emerging market index. In time, it would seem these would turnaround, especially given what seems to be going in many markets.

As always, please call or email if you have any questions about your investments and financial plans. We are here to assist you in making decisions to help you reach your ultimate goals.

- The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do guarantee that the foregoing material is accurate or complete. Any opinions are those of Mark D. Aldridge and not necessarily of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein.
- Investment return and principal value of an investment will fluctuate; and that an investor's shares, when redeemed, may be worth more or less than their original cost.
- Keep in mind that there is no assurance that this or any strategy will ultimately be successful or profitable.
- Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation.
- Dividends are not guaranteed and must be authorized by the company's board of directors.
- Diversification and asset allocation does not assure a profit or protect against a loss.
- Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

In Conclusion

Thank you for your trust, confidence and friendship. As always, I am truly grateful for the opportunity to be of service. I pray the remainder of your summer goes very well. I'll write again in October.

Best regards,

Mark

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Index Definitions

Dow Jones Industrial Average (DJIA) -- an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.
S&P 500 -- an unmanaged index of 500 widely-held stocks that's generally considered representative of the U.S. stock market.
NASDAQ Composite -- an unmanaged index of securities traded on the NASDAQ system.
MSCI EAFE -- a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada.
MSCI ACWI -- The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2009 the MSCI ACWI consisted of 45 country indices comprising 23 developed and 22 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.
Russell 2000: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.
Barclays Capital Aggregate Bond Index -- a measure of investment-grade, fixed rate debt including corporate, government and agency issued bonds as well as asset-backed securities. Issues must have at least 1 year left to maturity and an outstanding par value of at least $100 million.
Barclays Capital Municipal Bond Index covers investment grade, tax-exempt, and fixed-rate bonds with maturities greater than two years.
MSCI Emerging Markets Index: designed to measure equity market performance in 25 emerging market indexes. The index's three largest industries are materials, energy, and banks.
FTSE Eurofirst 300 Index: the 300 largest companies ranked by market capitalization in developed Europe.
Nikkei 225 Index: the leading and most-respected **index** of Japanese stocks. It is a price-weighted **index** comprised of Japan's top **225** blue-chip companies on the Tokyo Stock Exchange.

Morningstar Category Definitions

Large-growth portfolios invest in big U.S. companies that are projected to grow faster than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.
Large-value portfolios invest primarily in large U.S. stocks that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
Foreign large-blend portfolios invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.
Small-growth portfolios focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).
Small-value portfolios invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
World Allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.

Other Disclosures