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Q3 2018 – Market Overview Newsletter

Economic Update

The third quarter of 2018 continued to be a strong quarter for both the U.S. stock market as well as the economy. We are now in the 10th year of the current economic expansion and signs point to continued growth. July 2019 will mark this as the longest expansion in history but also been the slowest and steadiest. In 2018 growth has picked up a bit, boosted largely by corporate and consumer tax cuts. Going forward I think we will see growth slow to a more moderate level.

With the economy doing well and inflation on target, the federal reserve raised rates another 0.25%. While the fed may have removed the word accommodative from their statement, their outlook and plan for continued gradual rate hikes remains unchanged. Recently, rates on the 10-year treasury also increased to over 3%. While this might be bad news for borrowers, it indicates greater confidence by the global bond market in the long-term direction of our economy.

The rest of the globe continues to grow as well but while growth in the U.S. has picked up, many countries around the globe have slowed down a bit. Of course, trade tensions are still looming, which we believe, in part, has led to a slowdown in global markets. The slowdown coupled with a strong U.S. dollar has made international investing challenging. However, we still see opportunities abroad and strong companies with attractive prices in which to invest.

There is a lot of uncertainty around the globe and upcoming elections here at home which could lead to increased volatility for a time. You wouldn't be human if you didn't fear loss, but volatility doesn't necessarily mean loss. No one can predict short term market moves so it is important to be diversified, periodically rebalance and stay invested.

Food for Thought

As we enter the last quarter of 2018, it is a good time to start thinking about taxes. The tax reform passed in 2017 eliminated several itemized deductions and limited others while increasing the standard deduction. Chances are that many people will no longer itemize their deductions but there may still be some ways to save on taxes.

For example, if you haven't completed your required minimum distribution from an IRA and don't need that income, you may want to consider gifting it directly to charity as a qualified charitable distribution. Gifting it directly to charity eliminates the distribution as taxable income to you which may save you some state income taxes as well.

Another example might be a 529 contribution. A 529 account is a great way to help pay for qualified educational expenses. The money can grow in the account tax deferred and if used to pay for educational expenses at an eligible institution, distributed tax free. Indiana offers taxpayers a tax credit equal to 20% of their contribution to a CollegeChoice 529 account (up to $1,000 credit.) If you live outside of Indiana but are interested in contributing to a 529 account, we are happy to research the benefits available in your state.

Give us a call if you want to talk through these or explore other tax saving or charitable strategies. As always, we're here to help. -LS

For more market details, see the "IM&R Q3 2018 Market Review" in the commentaries page on our website at www.langdonshaw.com/commentaries

DISCLOSURE INFORMATION

The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. Asset allocation and diversification do not eliminate the risk of experiencing investment losses. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. The information shown does not constitute investment advice, does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes. Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government's debt obligations (bonds, notes and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. **Benchmark Definitions S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. **The Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. **The S&P Small Cap 600 Index** covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P Mid Cap 400** is a capitalization weighted index that measures the performance of the mid-range sector of the U.S. stock market. Morgan Stanley Capital International **(MSCI) EAFE Index** (Europe, Australasia and Far East) is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by major MSCI indexes from Europe, Australia and Southeast Asia. **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index that is designed to measure equity market performance in emerging markets. It consists of indices in 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and Arab Emirates. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Investors cannot invest directly in an index. Participation in a 529 College Savings Plan (529 Plan) does not guarantee that contributions and investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses or that a beneficiary will be admitted to or permitted to continue to attend an institution of higher education. Contributors to the program assume all investment risk, including potential loss of principal and liability for penalties such as those levied for non-educational withdrawals. Depending upon the laws of the home state of the customer or designated beneficiary, favorable state tax treatment or other benefits offered by such home state for investing in 529 college savings plans may be available only if the customer invests in the home state's 529 college savings plan. Consult with your financial, tax or other adviser to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You may also wish to contact your home state or any other 529 college savings plan to learn more about the features, benefits and limitations of that state's 529 college savings plan. For more complete information, including a description of fees, expenses and risks, see the offering statement or program description.