



QUARTERLY MARKET COMMENT Second Quarter 2019

How do we make sense out of the recent market behavior? The word Teflon comes to mind. The markets seemed to shrug off all the scary headlines this past quarter to claim the prize as the longest bull market in this historic longest economic expansion. Now what, you might say. Well let's start by looking at last quarter. The second quarter was positive (see 2Q 2019 column below), but it was far more choppy than the 1st quarter. Just about every investment asset produced gains in 2Q after experiencing negative returns in May. The best performing area was mid-cap growth stocks, but overall large caps performed the best in the domestic markets. Natural resources took a break while gold charted new highs. Global real estate slightly outpaced domestic for the quarter and emerging markets performed slightly better than developed international markets for the quarter. The bigger surprise was happening in the fixed income market. Interest rates on intermediate and longer term bonds dropped mid-way through June due to the Federal Reserve's statement. A more dovish tone seems to be setting up the Federal Reserve to lower short-term rates in the near future and this translates into existing bond values going up above their coupon rate.

Are we in uncharted territory? Yes and no. The economy, even though the longest expansion in history, still has to run its course. Think of this like a marathon. There's a starting point, the course you have to run, and the finish line. We still have to run the course to get to the finish line (can't take a short-cut), but we've decided to walk on some parts of the route instead of run. This has extended our time, not the underlying fundamentals of the course we are on. So what we do know is we are nearing the end (late cycle) and we're getting a little tired. This is starting to show up in the economic indicators. Cycles can last for a very long time. As an example, Australia hasn't seen a recession in nearly 28 years. We may come to a slow crawl, stop for a water break and continue on. Or, we may experience something that will speed up our process (trade, tariffs, or some looming geo-political impact) and get us to the finish line quicker. The current economic backdrop is still positive – economy is growing, unemployment is at historic lows, companies are still growing, interest rates and inflation are low. As Yogi Berra might have said if he played the market: All we can know for sure is that it's later in this cycle than it used to be.

Our portfolios are broadly diversified and in the long-run, research has demonstrated this strategy enhances performance and reduces risk. In the short run, a diversified portfolio can under-perform in a narrow market. Given the wild swings in the markets, it takes patience and resilience to weather the turbulent times. Those with a long-term view are rewarded for their time in the markets. Please let us know if you have any questions or concerns. We appreciate the opportunity to work with you and we thank you for allowing us to help guide you through your financial life.

Although the information has been obtained from sources believed to be reliable, the information should be relied upon only when coordinated with individual professional advice. Past performance is not a guarantee of future results. Material discussed is meant for general illustration and/or informational purposes only, and it is not to be construed as tax, legal or specific investment advice.

Asset Index Category	2Q 2019 %	YTD 2019 %	2-Year Average %	5-Year Average %
S&P 500 Index-Large Companies	3.79	17.35	10.18	8.46
S&P 400 Index-Mid-size Companies	2.60	16.99	5.54	6.31
Russell 2000 Index-Sm Companies	1.74	16.17	5.21	5.60
Natural Resource Funds	0.26	11.97	2.85	-2.33
Gold	6.62	10.26	6.62	1.48
US Real Estate Funds	4.66	18.33	6.89	7.23
Global Real Estate Funds	5.76	15.21	7.06	4.66
MSCI EAFE-Developed International	6.12	11.77	1.03	-0.51
MSCI EM Index-Emerging Markets	8.14	9.22	2.16	0.08
Barclays U.S. Aggregate Bond Index	2.31	6.11	3.65	2.95
Long U.S. Government Bond Index	1.38	9.28	5.08	4.84
Emerging Market Bond Index	4.48	9.98	3.09	1.62

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