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Are You Making Money? Here's A Year-to-Date Investment Recap – Sandi Weaver, CPA, CFP®, CFA®

History repeats itself. It is different this time. Ditto for your investment asset classes! We are pleased with the portfolios' performances – your return – this year. Below is a recap of where we have your money invested, what's doing well and what's not.

U.S. large-cap stocks were one of last year's winners and continue to do well.

Corporate earnings were robust in the 3rd and 4th quarters of last year, and have continued that trend in the 1st and 2nd quarters of this year. Interest rates remain low, a la the Federal Reserve Bank. President Trump is paring back regulations which hinder business growth, and has plans to take down corporate taxes if he can. Trump's threats of increasing trade barriers have softened, furthering the revenues and earnings of large-cap businesses with sizable operations overseas. For example, General Motors has more employees overseas than here in the U.S. They sell more cars overseas than here. In 1st quarter 2017, Apple took in 65% of their revenues from overseas; they sold only 35% here in the U.S. In 2016 Coke sold 15% of its products in North America, which includes not just the U.S. but Canada and Mexico. That means Coke got 85% of its sales overseas. We have a large portion of your money invested in these kinds of large-cap U.S. companies.



Last year's superstars though were **small-company stocks** which gained over twice as much as the S&P 500's large companies. This year? Small companies are making only half as much as the big firms. Small companies are more volatile, risky. These continue to benefit from good earnings and the low interest rates in the U.S., but they don't get the boost from the healthy overseas business. We have a significant portion of your money invested here, but not nearly as much as in the above large-caps.

Another big chunk of your dollars is invested overseas. Last year's return from these investments was blah, a mere 1%. In fact, it's been 7 years since returns from **overseas stocks** have bested those of our U.S. stocks. But those two continually swap for first place. Prior to those 7 years, we made more money from international stocks in 6 of the 7 years before that. So, overseas matters. Although China's economy is huge, their stock market is only 10% of the global market. (The U.S. is 36%.) China is only a minute portion of your investments. So overseas in Europe matters more. The Eurozone's corporate earnings grew twice as much as ours in 4th quarter last year, and their prospects remain upbeat.



Bonds are a necessity in case of trouble, but returns have been low when compared to earlier bond returns. During a bear market, bonds seldom lose and are often the only investment in your portfolio making money. Last year returns were meager – below 3% across the spectrum. This year investors have made the same – in six months. That return is not expected to double by year's end though. Short and intermediate-term government bonds have returned 2% to 2.5%, but the dip in yields isn't expected to fall further. Municipals have recouped some from last year's slide. Returns on mortgages, mortgage-backed bonds, and TIPS have returned well below 2% this year, while municipal bonds, corporate bonds and high yield bonds are ranging around 3% to 4%. We have a significant portion of your money invested here, usually across several types of bonds.

Even though the Federal Reserve is expected to continue to slowly increase interest rates, depressing bond prices (*i.e.*, you lose money), history shows that doesn't always portend losses in your bonds. Usually bonds face headwinds for a couple

years, and then performance begins to bring in those higher yields for investors. In some years, returns were healthy during the period of rising rates. The reports we discuss in your review meetings have this chart of information so you can see the recent periods and what happened to returns.

Are changes in your portfolio ahead? Yes, we're evaluating all bond investments, particularly now that the Federal Reserve's plan to gradually increase interest rates appears to be underway. We're working with research specialists on current and prospective bond funds, to help ensure we have your money well-positioned. We continue to compare your bond funds to others investing similarly, to pinpoint troubled funds which may need to be booted from your portfolio. Our investment committee monitors the stock mutual funds and ETFs where we place your money, to evaluate whether we need to make a change due to poor returns or other reasons. A high majority of the funds and ETFs we use are institutional, with significantly lower expenses than most can access. But our future efforts are focusing on more shifts into passive ETFs and funds when studies show a low probability of beating an index. Those passive or index investments have lower expenses as well.