SIA Perspectives

Stegner Investment Associates, Inc. **3rd Quarter 2018**

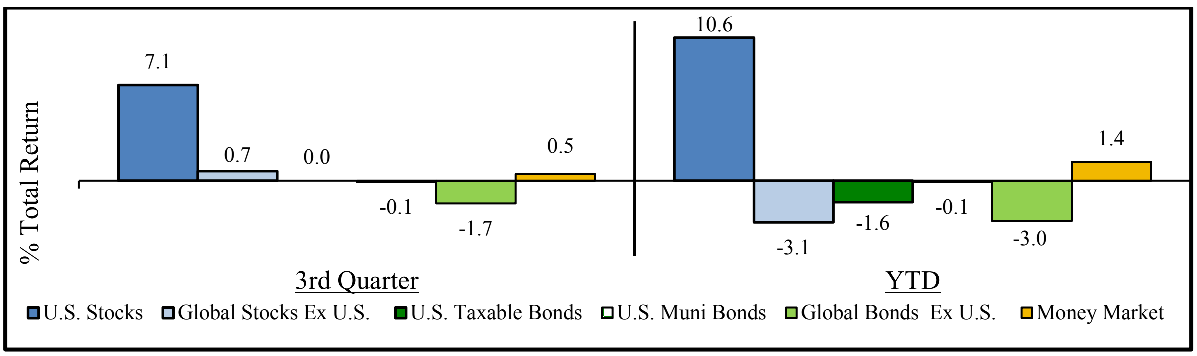
The production and delivery of our *SIA Perspectives* each quarter is an effort to engage Clients and to increase their knowledge of our time-tested, disciplined and successful investment strategies. We also strive to explain the movements in financial markets and the impact current events can have on portfolio performance.

As we gathered data about 2018's solid results through September, financial markets suffered an unexpected bout of volatility during the first days of October. Short-term swings in financial markets must always be viewed in the context of longer-term results, as we demonstrate in this quarter's edition.

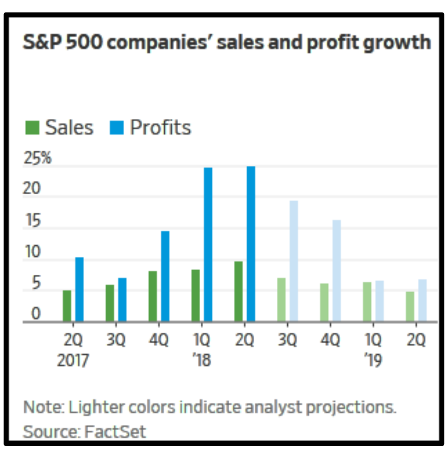
What Has Happened to Financial Markets in 2018?

Last quarter's *SIA Perspectives* detailed the impact of political leaders attending high profile group events like the NATO and the G-7 summits, while also conducting historic one-on-one meetings. The tension surrounding these events rattled financial markets and drove investors into U.S. based investments, as earnings growth domestically continued to be outstanding.

During the 3rd quarter, investors gained confidence that the U.S. economy would be able to withstand the U.S. Federal Reserve's (the Fed's) commitment to raising short-term interest rates gradually along with slightly higher inflation. Although trade barbs intensified late in the quarter, financial markets grew more comfortable with the rhetoric and entered a "wait and see" mode. In September, domestic wage growth notched the strongest monthly reading since 2009 and unemployment levels reached historic lows. These events pushed most U.S. stock markets higher for the 3rd quarter and to-date in 2018, while bond market returns were negative and money market funds added value to portfolio returns.

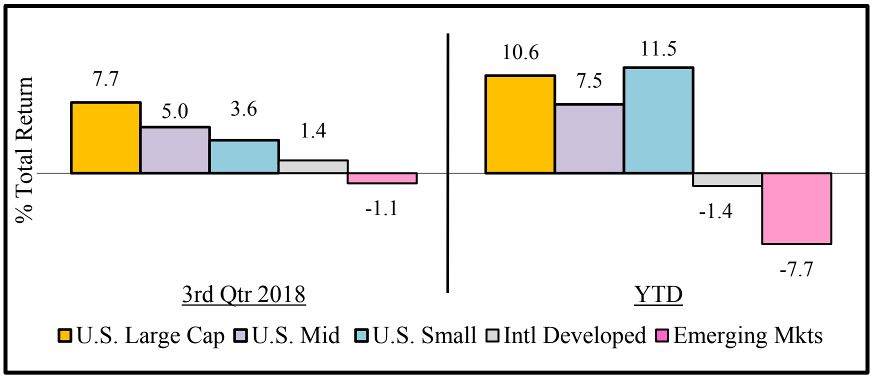


What Happened to Stocks?



Spectacular earnings growth announcements from U.S. companies continued at a record pace during the 3rd quarter, with expectations of further growth being projected through 2019. As noted in the chart of U.S. large cap company results to the left, improving quarterly sales and profit growth early this year are expected to continue, albeit at a slower pace, for the rest of this year and through 2019.

The improvement in profits is due to corporations benefitting from this year's tax cuts. Investors also cheered announcements of mergers and acquisitions, higher dividends and greater share buybacks.



All major broad U.S. stock market benchmarks posted very good returns for the 3rd quarter and to-date in 2018.

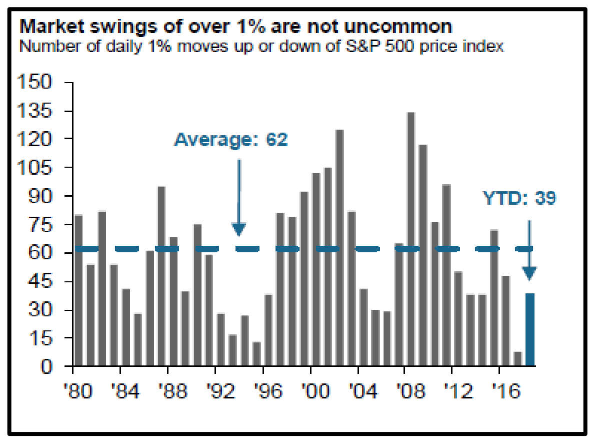
Meanwhile, stock markets overseas battled with political uncertainties, Brexit, less than expected economic growth and the weakening of currencies relative to the U.S. dollar.

Through the first nine months of this year, U.S. stocks added to outsized gains earned in 2017. International and emerging stock market returns in 2018 have been negative, but investors must not forget that 2017's returns were exceptional. When linked together, the 21-month period of performance for all major stock benchmarks was outstanding, as indicated in the table below:

Stock Market Benchmark	%Total Return 2017	%Total Return YTD 2018	%Total Return Cumulative 21 months
Broad U.S. Index	21.2	10.6	34.0
MSCI EAFE Index	25.0	-1.4	23.3
MSCI Emerging Mkts Index	37.3	-7.7	26.7

Successful investors recognize that to be able to earn higher returns offered by stocks, they must endure short periods of volatility. The chart to the right measures the total number of daily moves up or down by 1% for the S&P 500 Index for each calendar year since 1980. Note that the average number of days is 62.

However, performance swings more recently in 2017 and 2018 have been well-below the historic average. This relative period of calm should not lull investors into thinking that market swings of 1% up or down are not common.



Source: JP Morgan; 10/15/2018

What Happened to Bonds?

Investors monitored the potential impacts of the Fed's actions as it continued to raise interest rates at a measured pace of 0.25% in September, bringing the total number of increases to 8 since 2015 (from a range of 0-0.25% to a range of 2.0-2.25%). In turn, money market funds posted the most impressive returns this year, as most bond prices around the world fell and yields moved higher.

2017	BONDS & MONEY MARKET	Total Return 1st Qtr 2018	2nd Qtr 2018	3rd Qtr 2018	YTD 2018
3.5%	Taxable U.S.	-1.5%	-0.2%	0.0%	-1.6%
10.5	Taxable Global-ex U.S.	3.6	-4.8	-1.7	-3.0
4.3	Municipal Intermediate	-0.9	0.8	-0.1	-0.1
1.0	Money Market	0.4	0.5	0.5	1.4

What's Behind the Announcement of a New Stock Sector?

At the end of September, the Global Industry Classification Standard (GICS) sectors were reclassified for only the second time since its inception in 1999. This reclassification renamed the telecommunications sector to "communication services" and broadened the sector to include companies that were previously in the technology and consumer discretionary sectors.

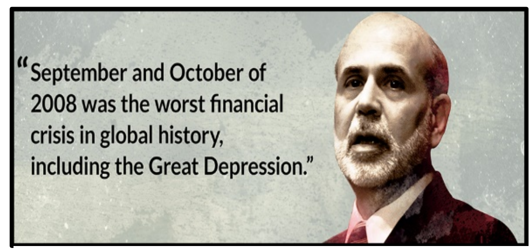
For example, Facebook, Twitter and Google parent Alphabet left the technology sector and moved into this new sector. Netflix and nine others moved from the consumer discretionary sector into the new sector, as well. Computer giants like Apple Inc. and Microsoft Corp., Intel Corp., and Cisco Systems still reside in the technology sector.

These realignments could cause short-term volatility as institutional money managers rebalance mutual fund and exchange traded funds (ETFs). The reshuffling includes 23 S&P 500 Index companies worth a combined $2.7 trillion.

How Have SIA's Investment Strategies Performed?

The just-completed 3rd quarter marked the 10th anniversary of a string of events that rocked the world. In September of 2008 alone:

1. the U.S. Treasury nationalized Fannie Mae and Freddie Mac.
2. Lehman Brothers filed for bankruptcy.
3. the Federal Reserve had to lend $85 billion to AIG.
4. a money market fund "broke the buck".
5. Goldman Sachs and Morgan Stanley applied to become commercial banks.
6. Washington Mutual went bankrupt.
7. stock markets around the world dropped 6% in a single day.



Ben Bernanke - Federal Reserve Chairman 2006-2014

By the end of 2008, all major stock market benchmarks had declined by approximately 40% for the year.

At that time, we reminded clients that "Markets Fluctuate, Goals Don't" and that our diversification strategies ensured that short-term investment objectives would be met by liquidating only money market funds and bond funds that had earned positive returns. There was no reason to sell stocks in the downturn to meet investment objectives. In our *4th Quarter SIA Perspectives* mailed in mid-January of 2009 we stated:

> "Yes, there is hope for 2009 and it is a result of the U. S. Treasury and Federal Reserve using every possible tool to avoid a depression and get the economy moving again. The Fed has slashed interest rates to almost 0% and launched several creative lending programs to unfreeze the credit markets.
>
> Sooner or later these actions will help corporate profits and companies will hire again. In addition, the Obama administration is expected to propose a massive stimulus package geared toward creating jobs and (re)building the country's infrastructure.
>
> The biggest problem facing the financial markets in 2009 continues to be the lack of investor confidence. The current environment indicates indiscriminate selling across all financial markets - except for U.S. Treasury securities. Such periods of dislocation have caused security prices to lose their connection to underlying business values. Our investment managers have proven time and again that they are capable of capitalizing on these disparities and generating superior returns.
>
> Although it is impossible to know the exact timing, we are confident that home prices in the U.S. will eventually stabilize, liquidity will return to the credit markets, with continued government assistance, and that stocks of durable companies purchased at historically low prices will result in gains for investors.
>
> Many investors have decided to "get out for the time being until things improve" and this strategy is certainly tempting given that the near-term economic outlook is not pleasant. However, stock market bottoms always occur before the economy bottoms and we resist the urge to lower exposure to stocks this far into the decline."

In the gloom that hung over the financial world in late 2008, it was impossible to guess that stock markets would stabilize in 2009. The official bottom of the decline occurred on March 9th and no one knew then that U.S. stocks were poised to embark on the longest bull market in history. As an example of the power of this rebound, the style box grid to the right indicates the returns of various U.S. stock market benchmarks since that low and through September 30, 2018.

The first few days of October provided a bout of downward volatility and may stir memories in investors of the declines ten years ago. However, focusing on short-term volatility, rather than long-term opportunity, is not a successful strategy to meet long-term investment goals.

Since market low (March 2009)

	Value	Blend	Growth
Large	372.4%	426.3%	498.4%
Mid	474.5%	480.2%	496.4%
Small	415.8%	463.2%	510.6%

What is Our Role as Investment Consultants?

For each quarter during the past two years, in the order listed below, we have introduced one of our firm's unique value-added practices that we provide for our clients including:

1. Behavioral Coaching
2. Rebalancing
3. Total Return versus Income Investing
4. Asset Allocation
5. Cost Effective Implementation

This quarter we introduce our sixth practice – Asset Location.

What is Asset Location?

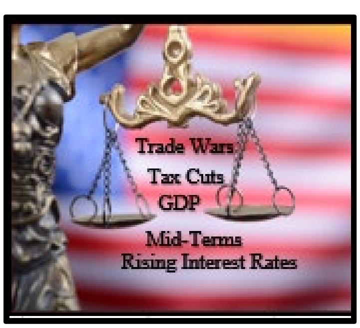
Asset Location is the allocation of "risk buckets" that we identify with each client to ensure that short-term and long-term investment objectives are properly determined. It is our responsibility to invest each bucket cost effectively and tax efficiently.

For our corporate and institutional clients, these discussions may include operating reserves (short-term) or retirement plan assets (long-term). For individual clients, investment vehicles have become more complex. In fact, according to a 2017 Morningstar study, the average household has more than six accounts to monitor and invest. We must identify strategies for taxable assets (brokerage, savings and trust accounts) versus tax-deferred assets (rollover IRAs, contributory IRAs, Roth IRAs, inherited IRAs and 401(k) plans) using our industry knowledge and experience.

During 2018, new tax laws regarding estate planning, marginal tax brackets and charitable giving have required us to conduct a deep review of our asset location strategies. We tailor our advice to meet the specific needs of each client and our reports and analysis are comprehensive and unique.

Outlook for the Rest of 2018?

Our outlook for financial markets continues to be favorable, but we are not making significant changes to our asset allocation strategies. Earlier this year we rebalanced stock and bond allocations opportunistically, and tempered stock market risk by unwinding an overweight to several of our large cap and small cap growth funds that generated outstanding performance during the past year.



Currently, there are many risks to consider, but these risks should be balanced with excellent opportunities as the U.S. leads the world with its strong economy. Concerns over trade disputes, politics in Europe, mid-term elections in the U.S., fear of contagion from Turkey and Argentina's economic woes and the potential for the Fed to make a policy error can dissipate just as quickly as they develop.

Tax cuts, low inflation, high employment and high consumer confidence are key positives for the remainder of the year.

Behind the Scenes at SIA

We continue to work on several key initiatives that will enhance and improve our investment consulting services. Exciting developments in 2018 include:

- Being named as one of the Top 300 Financial Advisors in the U.S. for 2018 by the *Financial Times*. Their ranking methodology included only Registered Investment Advisors (RIA) registered with the U.S. Securities and Exchange Commission (SEC) and they reviewed over 2,000 qualifying companies. 760 firms applied to be part of this elite list and were graded on six broad factors which signal experience and client trust. We are very proud to have been selected as one of the top 300 firms.
- Expanding our offices to incorporate space in the commercial building next door. Renovations are almost complete and we look forward to using the new conference room, kitchen and extra work areas.
- Enhancing our investment and industry knowledge through in-person and off-site meetings with fund managers and their firm representatives. During the 3rd quarter we held meetings with several of our existing managers including Longleaf Partners, T. Rowe Price and Oppenheimer. During the quarter we also investigated new investment opportunities with Credit Suisse, Allianz, Blackrock and Deutsche Wealth Services.
- Implementing phases of our five-year strategic plan to ensure that our firm continues to provide Clients with an extraordinary level of investment consulting services.

Thank you for being part of our firm's success! Remember that "Markets Fluctuate, Goals Don't".

****Benchmark Indexes used in this SIA Perspectives include**: Dow Jones Total US Stock Market Index, MSCI ACWI- ex US, Bloomberg Barclays US Aggregate Bond, Global Ex-US and Municipal Bond 1-15-year Index, US Treasury Bill Index, S&P 500 Index, Russell Mid Cap and Small Cap Index, MSCI EAFE and EM Indexes.*