Identifying Opportunity.
Navigating Risk.

Newsletter – July 2018

MARKET TRENDS 6/30/2018

US Stock Markets	Q2	YTD
S&P 500 Index	3.4%	2.7%
S&P MidCap 400 Index	4.3%	3.5%
Russell 2000 Index	7.5%	7.7%
Int'l Stock Markets		
EAFE Index	-1.2%	-2.8%
Emerging Mkts Index	-8.0%	-6.7%
Fixed Income		
Barclays Intermediate Gov't/Credit Bond Index	0.0%	-1.0%
Barclays Capital Muni Bond 3 Year Index	0.6%	0.8%
Commodities		
SPDR Gold Shares (NAV)	-5.6%	-3.8%
Goldman Sachs Commodities	8.0%	10.4%
Real Estate		
Dow Jones US REIT Index	7.8%	1.4%
Yields	**6/30/2018**	**12/31/2017**
6 Mo. US T-Bill	2.1%	1.5%
10 Yr UST	2.9%	2.4%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

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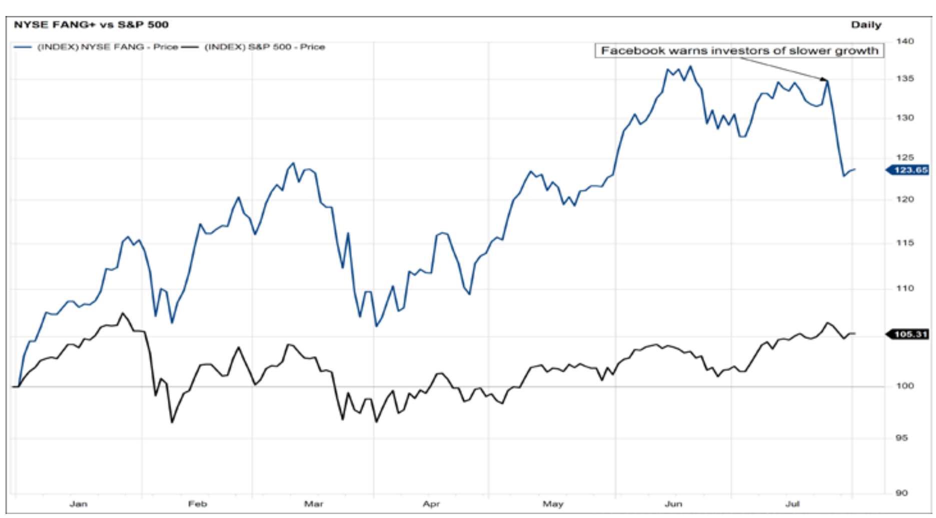
The Here and Now

The second quarter was dominated by the White House and President threatening to increase tariffs on foreign goods leading to concerns about possible trade wars. The impact of further Federal Reserve interest rate hikes was another source of anxiety for the markets. After an elevated level of volatility in the beginning of the year, volatility came down in the second quarter but remained higher than 2017 levels. It seems that the press and investors en masse have yet to figure out how to react to Mr. Trump's communications, but generally there are short-term sell-offs when the President stakes his ground as a bargaining positon with disparaging and bellicose statements and tweets. It is confusing to many when Mr. Trump then appears complimentary as he stands next to world leaders he has just berated. Thus far, these actions have not been significant; creating a pattern where the strong economy bolsters the equity market back up again. However, it is hard to argue that 2018 has been anything other than a fairly volatile year within a tight band of pricing. In short, there has been much ado about not that much!

Meanwhile, in the economy, labor markets remain tight with some rising wage pressure. The U.S. unemployment rate hovers around 4%, traditionally considered full employment in modern times. Company earnings continue to be strong, up more than 20% year over year. The market has gotten a bit more attractive on a valuation basis as stock price gains have been much smaller relative to the growth in earnings. If one thinks about stock market and price movements as a leading indicator, this makes sense. "Wall Street" doesn't care about what you've done for it lately, but what will happen in the next six months or so. The narrow breadth of the equity market is evinced by the FANG's (Facebook, Amazon, Netflix, Google/Alphabet) stunning price gains while returns for the rest of the market have been muted. See below:



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"…tariffs on foreign goods leading to concerns about possible trade wars."

"...Federal Reserve interest rate hikes were another source of anxiety…"

"…volatility came down in the second quarter but remained higher than 2017…"

Despite most of the stocks in the equity market being range-bound, there remain very positive signs in the economy. Companies are benefiting from deregulation and tax cuts which have fueled capital spending, stock buybacks and dividend increases. Corporate earnings are at record levels and the high consumer confidence is resulting in strong demand and revenue growth. The consumer is benefiting from lower payroll tax withholding (more take home income), low unemployment, wage growth, modest gas prices, lower debt on their balance sheets relative to their income, and overall housing affordability. Interest rates are historically low but rising, though not quickly, and inflation is still fairly low.

Tax Loss Harvesting as a Strategy

Over the years you may have heard of tax loss harvesting, but you may not know what it truly means. In this quarter's commentary we hope to explain to you what tax loss harvesting is, how we utilize it at Shorepoint, and most importantly, how it benefits you.

So first off, what is tax loss harvesting? It is the practice of selling a security that has experienced an unrealized loss. By realizing or "harvesting" the loss, investors are able to offset taxes on both gains in other investments as well as against income (up to $3,000 per year), and unused losses can be carried forward to future years. There are two ways we harvest losses for clients:

1. Sell the security, conceivably a position we wish to still own, and buy back the security in 31 days to comply with the IRS wash sale rule, OR
2. "Double down" on the security by purchasing more shares and sell the first tax lot for a loss 31 days later.

The tax losses we take now will help offset your 2018 capital gains and, in some cases, capital gains in future years. As a part of our investment management process and financial planning, we need to work closely with your tax preparer to stay on top of your capital gain situation, which helps your team maximize what you keep after paying Uncle Sam.

Market volatility and/or companies experiencing near-term challenges can provide opportunities to harvest losses. Our aggressive use of tax loss harvesting recently has resulted in your seeing a higher-than-usual amount of trading in your taxable portfolios.

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Shorepoint
Capital Partners LLC

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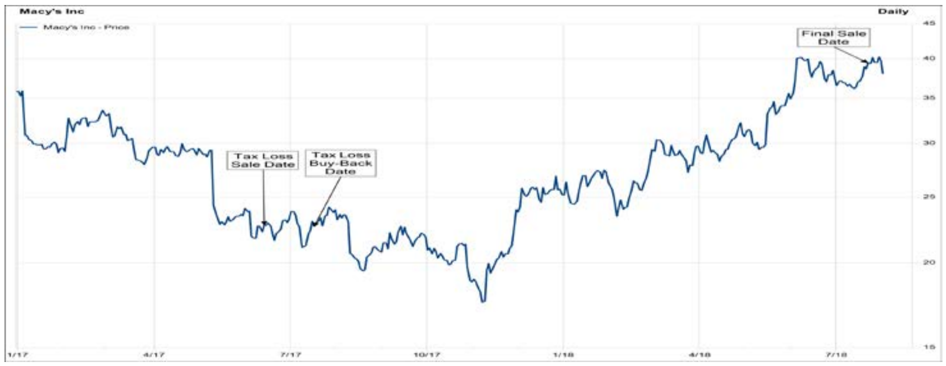
Example – Macy's

See the following chart and results of a sample $10,000 position:



- On January 2017, we purchased Macy's stock for about $35.81.
- Macy's stock went down to a low of $17.41 due to several factors - negative sales growth, declining margins and worries about the impact of Amazon on sales and profits. At its low, Macy's was trading at a 6-7x earnings and a 6% dividend yield.
- Based on our analysis, Macy's looked "too cheap" and a "disaster" scenario was priced in. Although concerned about the weak business fundamentals, we thought sentiment was too bearish and the stock was undervalued considering the Macy's brand, valuation, and its strong balance sheet.
- Therefore, we decided to harvest the tax loss on June 2017 at ~$22.64, resulting in a $3,678 loss based on the $10,000 position.
- We bought back the same share quantity 31 days later in July 2017 at $22.94 per IRS wash sale rules.
- Since then, Macy's stock price has rebounded significantly to high $30's. After further analysis on Macy's and the shares becoming eligible for long-term tax treatment, we decided to sell our position and redeploy the proceeds into more attractive stocks. We sold the position at ~$39.38 per share and collected the high dividend along the way.
- What is the result of all these trades? Did you make money? Yes!
  - ✓ *Net gain of 14.8% or $1,479 including the stock appreciation, dividends, and the realized stock loss.*
  - ✓ *Clients have for tax purposes a $3,678 tax loss credit.*
  - ✓ ***Bottom line: we generated a large gain and a tax asset too!***

Shorepoint Capital Partners LLC

“…majority of companies are exceeding Wall Street revenue and earnings expectations…”

“…repositioning…portfolios …to perform better in the current environment.”

“…adding to…international developed market equities, emerging market equities and bonds, financial and consumer staple stocks.”

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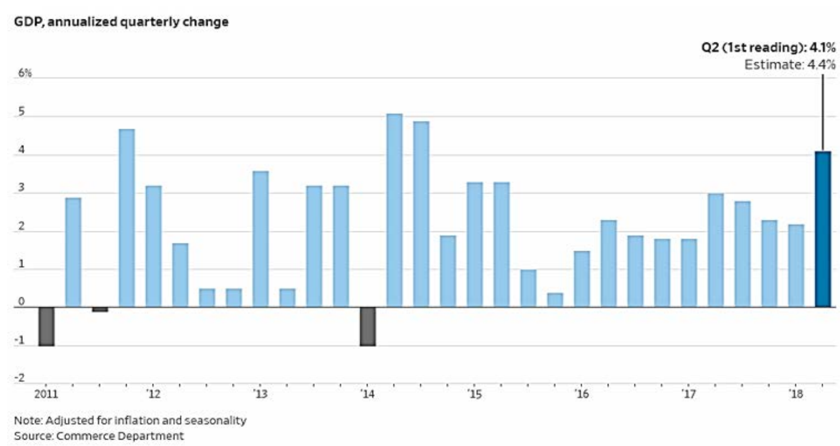
Looking Forward

The domestic economy is robust and is not showing any signs of slowing. Job growth is strong and unemployment is low, but we are starting to see some small signs of inflation. A majority of companies are exceeding Wall Street revenue and earnings expectations with the help of lower tax rates and healthy demand. The S&P 500 Index’s valuation is now more attractive than in the first quarter due to the significant increase in corporate earnings. Part of the current wall of worry that the market must climb is a fear of rising interest rates. However, the transparency of the Fed and the small, even increases in rates has ameliorated the reaction to the Fed’s tightening thus far. Between the interest rate hikes and trade/tariff issues, we have experienced a higher level of market volatility throughout 2018 than the unusually low levels of last year. Bonds have, for the most part, produced negative returns this year.



We have used the higher volatility as opportunity to pare back outsized positions and sell less attractive stocks, as appropriate. We are repositioning our portfolios to be able to perform better in the current environment. As contrarians, we are adding to attractively valued international developed market equities, emerging market equities and bonds, and financial and consumer staple stocks. We advocate a “buy the dips” approach and continue to add to high-quality, attractively valued companies that have robust cash flow, strong earnings growth prospects and solid balance sheets.

Overall, Shorepoint’s core philosophy is to manage diversified portfolios of quality, reasonably-valued assets based on your investment objectives and risk tolerance. This has and will prove to be a successful investment strategy over the long-term. We seek to take advantage of opportunities as they arise and generate attractive long-term returns to help our clients reach their financial goals. As always, we are available to discuss your concerns and answer your questions.