NEWSLETTER – JULY 2019

MARKET TRENDS 6.30.19

Asset Class	QTD	YTD
US Stocks		
Large Cap	4.22%	18.33%
Mid Cap	3.04%	17.96%
Small Cap	1.93%	16.85%
International Stocks		
Developed Markets	3.53%	14.23%
Emerging Markets	0.74%	10.69%
Fixed Income		
Taxable Bonds	2.44%	4.78%
International Bonds	3.03%	6.12%
Municipal Bonds	2.36%	4.83%
Alternatives		
Emerging Markets Bonds	4.22%	11.29%
Energy MLPs	-1.86%	12.35%
Floating Rate	2.16%	9.91%
Preferred	2.26%	10.25%
Gold	9.17%	9.86%
Real Estate	1.07%	18.23%

Source: Factset

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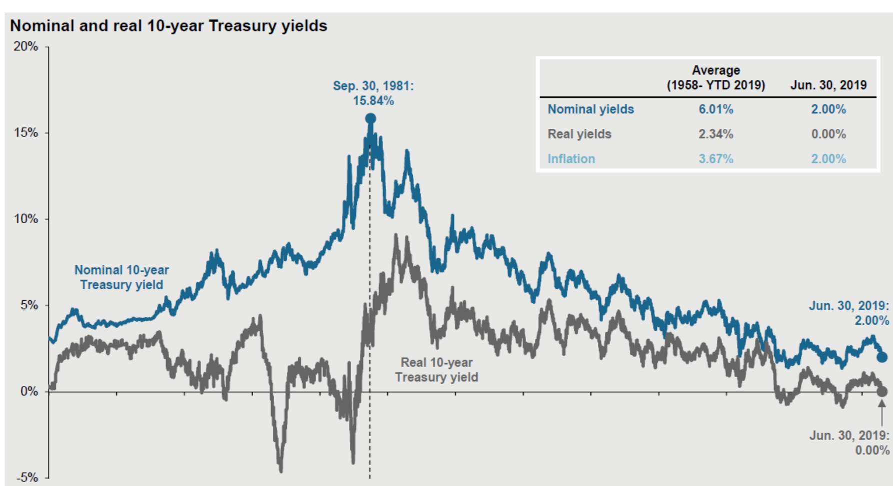
STOCKS REBOUND AND REMAIN STRONG

While everything may be coming up roses in the equity markets at the moment, Shorepoint pared back our significant overweight to stocks from 7.5% to 2.5% with two rounds of selling in the first half of 2019. A 5% reduction in stock exposure, while modest, indicates our contrarian approach. We want clients to book gains in rising markets, especially after this historically long bull run. Don't be surprised to see us pare back stock exposure another 2.5% to neutral if the recent ebullience persists. On the other hand, if the market were to take another 20% tumble as it did at the end of 2018, we might again be adding to stocks depending on our analysis.

BONDS ALSO UP CONSIDERABLY

Not only have we seen strength in the U.S. stock markets, rising mid-teens this year, but we have also experienced mid-single digit returns to the upside from the bond market in the first six months of the year. The 10 year U.S. Treasury bond was yielding over 2.7% at the start of 2019, yet inflows to bonds due to the easing posture of the Federal Reserve ("Fed") have driven the 10 year U.S. Treasury bond as low as 1.95% in the second quarter (see chart below). A global tightening cycle looked to be on the near-term horizon a year ago. Where we sit today, it looks to be at least 12-18 months away. These are dramatic moves in the bond market and counter to the rising rate environment many economists had foreseen. It's not hyperbole to say these have been historic moves for the bond market; global demand for U.S. government debt remains strong.



MORE PRUNERS THAN MARKET TIMERS

Timing the bond or the stock market is nearly impossible. And even if an investor can time things correctly one time, it doesn't mean that it can be repeated on the other side. After all, an investor has to make two correct decisions, when to sell and when to buy! In fact, studies show that the damage done to portfolios that are in cash is one of the greatest investor risks; imagine completely missing the up moves in stocks and bonds we are witnessing today. So we watch daily. We make small moves, moving money to areas we think are undervalued-meaning that we can likely receive fair returns for the risk we are taking. We also continuously monitor your holdings in taxable accounts to realize losses when we can to lower what you owe the IRS annually. In times like these, far into a bull market with domestic valuations fair, you will notice more trading activity in your portfolios than usual.

BUT HASN'T IT BEEN A LONG BULL? YES, IN THE U.S.

While the length of the bull market is long, it's important to understand that we still haven't seen economic growth take off in the past 10 years. In fact, the 2-2.5% Gross Domestic Product growth of the last decade is anemic compared to past economic recoveries. In addition, the U.S. has been the best place to invest-by far-over the last decade. We don't expect that to always be the case. As a firm, we have advocated less exposure to international and emerging markets securities than others and certainly far less than the 25% plus exposure generally espoused in modern portfolio theory. While we have been relatively light in our international and emerging markets exposure, we haven't been absent in those areas. In a modern tech enabled world, money moves fast when it moves and we believe someday the low valuations abroad will compel investors to come back. Like Wayne Gretzky said, we are trying to skate to where the puck will be. When you're wrong, it can get lonely! But we are constructive on the next 10 years being better for diversified portfolios than the last 10!

WHAT COULD GO WRONG?

A lot. In late May we saw a big, fast drop in stocks when it appeared that the China-U.S. trade talks were worsening. If China decides to hold off until after Trump's re-election campaign on inking a deal, the market would likely turn lower. If the Fed rate cuts are tabled, ironically due to a stronger economy, the markets would also be caught unaware, as consensus is that 2-3 cuts will happen this year! If relations with Iran reheat over their nuclear program, it would also be detrimental (understandably) to investor confidence. Two decades after Microsoft's battle with the Department of Justice, trustbusters are once again taking a look at tech giants. In addition to things that we KNOW could go wrong, the most pernicious factors are typically the surprises, the unexpected events that we hadn't even considered. All you can do is be diligent, engaged, and some combination of disciplined AND flexible when the future unfurls before you.

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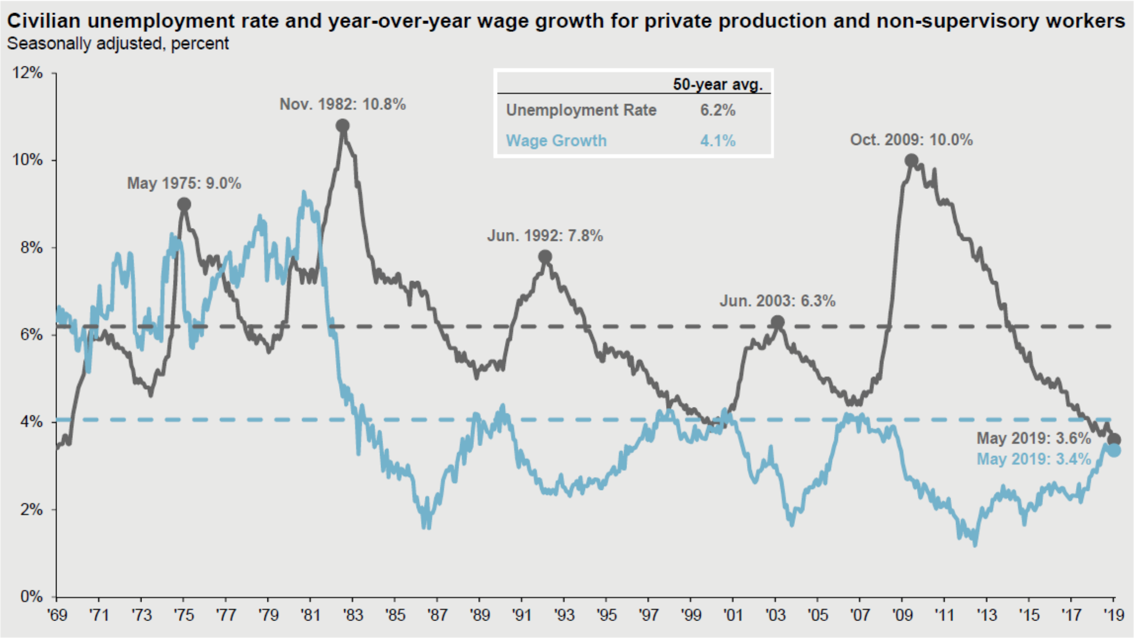
"We make small moves, moving money to areas we think are undervalued..."

CYNICS AND DAD

Cynics continue to say; this won't end well. In fact, they are right. It never does. We don't know when this market will go bust, and it's fruitless to guess when it will. But it will-probably at a time more ebullient than now. Tim's dad called the late 90s "a mutual hallucination." However, markets have always rebounded from these negative events and rewarded patient investors.

LASTLY, AN OVERVIEW

In this moment, we are witnessing an incredibly long run of prosperity in the U.S. Certainly one could argue that it is not as shared as it had been in past economic expansions. And it is also aided and abetted by massive government debt (not more than most other nations though) and an accommodative, if not loose, Fed printing money whenever nudged. Companies continue to grow earnings, pay low taxes, return cash to shareholders (dividends and buybacks), and provide shareholders competitive returns. Unemployment remains the lowest it has been in decades and inflation is muted. Household net worths are growing, and consumers have reasonable debt levels given their income.



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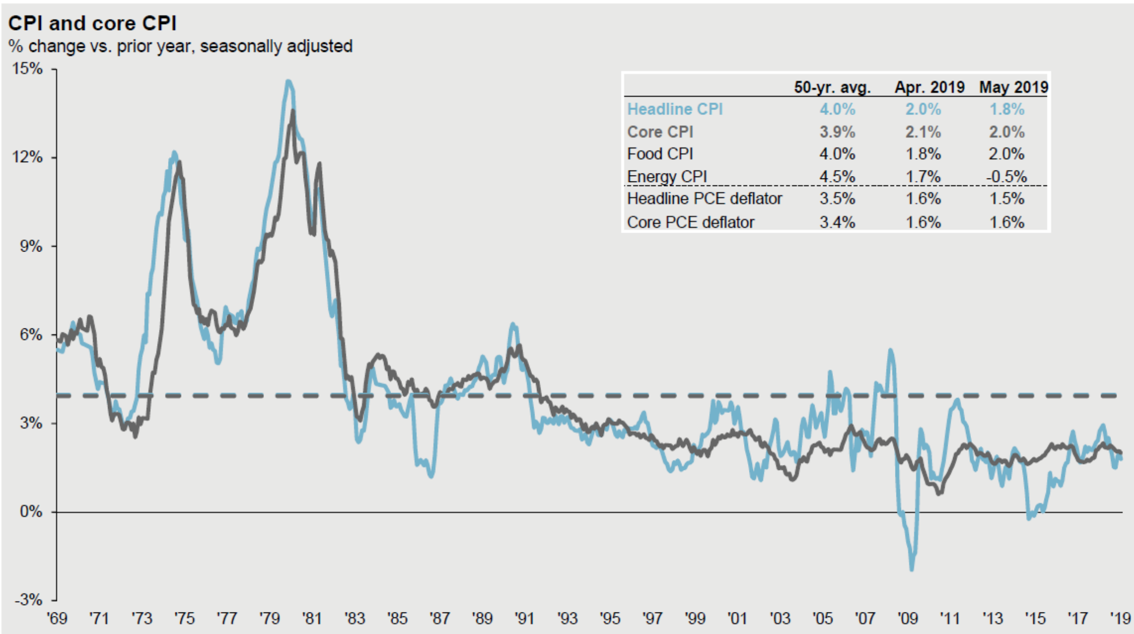

Shorepoint's core philosophy is to manage diversified portfolios of quality, reasonably valued assets based on your investment objectives and risk tolerance. This has and will continue to be a successful investment strategy over the long-term. We seek to take advantage of opportunities as they arise 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.

"...we are witnessing an incredibly long run of prosperity in the U.S."

"Companies continue to grow earnings...provide shareholders competitive returns."