

# summaries



the official newsletter of sigma investment counselors

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## MARKET COMMENTARY

In the classic novel “A Tale of Two Cities” by Charles Dickens, the author begins the story with the often quoted phrase “It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness ...” To some extent, this seems to describe our current financial and political landscape.

Starting with the best of times, we find that our stock market is at record highs, unemployment is low, tax reform and deregulation is providing a near term boost to corporate earnings, consumer confidence remains strong and interest rates are rising at a slow and manageable pace. As a result, the market is performing better than we originally anticipated at the beginning of this year. See the chart below.

	2018	
	3 <sup>rd</sup> Qtr	YTD
<b><u>Domestic Equities</u></b>		
S&P 500 Large Cap	7.7%	10.6%
S&P 400 Mid Cap	3.9%	7.5%
S&P 600 Small Cap	4.7%	14.5%
<b><u>International Equities</u></b>		
MSCI EAFE Dev	1.4%	-1.4%
MSCI Emerging Mk	-1.1%	-7.7%
<b><u>Bonds</u></b>		
Barclays US Agg Bond	0.0%	-1.6%

Yet, there are serious issues that may topple the positive momentum that we are experiencing as highlighted above. Trade wars, a tightening labor market, inflation concerns, growing government debt levels, and geopolitical tension are just a few of the many concerns that bare watching.

A Tale of Two Cities also aptly describes meaningful variances in returns year over year and among asset classes. For example, Emerging Markets had a stellar 2017 (+37%) yet is negative in 2018 (-8%). Less obvious to many is the wide divergence of growth stocks versus value stocks. YTD, the S&P 500 Growth Index is up 17% while the S&P 500 Value Index is up only 4%. This large disparity can also be seen in the small cap arena.

As our client, you know well that diversification and asset allocation are the foundation of Sigma’s investment philosophy and strategy and represent the core underpinnings of long term investment success and achieving your financial goals. While it is tempting to chase the hot stock or index and ride the wave, our mantra is to stay the course. The market is never predictable. Rallies and corrections come and go. Studies have shown, and we agree, that market timing is a fool’s game. In fact, it is nearly impossible to predict where the market is headed and make meaningful bets to consistently sell at the top and buy at the bottom. Instead, we adhere to a policy of embracing one’s asset allocation and rebalance on the margin when the allocation of stocks versus bonds and cash are out of sync with the strategy outlined in your Investment Policy Statement.

At the risk of oversimplification, the broad U.S. equity market, while volatile, is performing quite well this year following a shaky start. The impetus is that corporations

local independent personal accessible

interactive creative local independent personal

knowledgeable thoughtful ethical experienced

are enjoying a very prosperous economic climate and are using their strong cash flow to re-invest in their businesses, increase dividends, buy back stock, make acquisitions and improve their balance sheets. We remain cautiously optimistic that the current administration will reach

resolutions with our trading partners before rising tariffs pinch the economic growth being enjoyed both in the U.S. and abroad. In closing, we appreciate the opportunity to serve as your wealth manager and appreciate your trust and confidence.

Christopher J. Kress, CFA

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