



**Lee V. Stadler**  
**Private Wealth Advisor**

6400 Sheridan Drive – Suite 320  
 Amherst NY 14221-4825  
 phone: 716.580.1129  
 fax: 716.626.9575  
 cell: 716-913-5231  
 email: lee.stadler@lfg.com  
 website: [leestadler.com](http://leestadler.com)

## 2018 – 2nd QUARTER INVESTMENT COMMENTARY

Stock and bond markets went on a bumpy ride in the second quarter. As the volatility of the first quarter faded, major indices rose. By early June, the Dow Jones Industrial Average had risen 5% for the quarter. Then, *old concerns resurfaced*. Continued instability in the Eurozone, polarizing politics and saber-rattling over international trade and tariffs took their toll. That said, most domestic indices still managed gains for the quarter and year to date.

All of this choppiness is beginning to have an impact on some investors and market sectors. According to firms that track investor flows, global equity funds saw \$12.4 billion of net outflows in June alone. That is the largest monthly exodus in 10 years. Presumably this is because international stocks are underperforming this year. Of course, international stocks were the darlings of last year given their strong performance. Apparently, *some people feel compelled to react even if they are not quite sure what they are reacting to*.

% Return as of 06/30/2018			
<u>Equity Indexes</u>	2 <sup>nd</sup> Q	YTD	3 Yr
S&P 500	3.4	2.6	11.9
Russell 2500	5.7	5.5	10.3
MSCI EAFE	-1.2	-2.7	4.9
Emerging Market	-8.0	-6.7	5.6
Wilshire REIT	9.7	1.5	7.8
<u>Bond Indexes</u>			
TIPS	0.8	0.0	1.9
Aggregate	-0.2	-1.6	1.7
Governments	0.1	-1.1	1.0
Mortgages	0.2	-1.0	1.5
Investment Corporate	-1.0	-3.3	3.1
Long Corporate	-2.8	-6.8	5.1
Corporate High-Yield	1.0	0.2	5.5
Municipals	0.9	-0.2	2.9
<u>Cash Equivalents</u>			
3-Month T-Bill	0.5	0.8	0.7
<u>Consumer Price Index</u>	0.4	1.1	1.9

Successful investing requires different, yet complementary traits in many environments. In down markets, optimism and a long-term view are vital. Powerful bull markets require discretion and restraint. Choppy markets, like the first half of 2018, require *patience*. Given the strong returns of recent years, markets that seem to inch forward and then back can be frustrating. This is by no means a new phenomenon. Sir Isaac Newton, who contributed greatly to our understanding of the natural laws of the universe, seemingly would have been a pretty good investor as well. He once said, “Genius is Patience.”

**Domestic Equities:** As noted above, large U.S. stocks were buffeted between improving fundamentals and macroeconomic concerns. Stocks would rise with the prospect of good earnings and an improving economy, and then fall with the latest news from North Korea or the potential for a trade war. These gyrations are nothing new. In the end, stocks managed moderate gains. The S&P 500 recovered from earlier losses and increased 3.4% for the quarter. The index is now up 2.6% for the year.

Smaller U.S. stocks were able to avoid some of the macroeconomic drags of the quarter. Smaller stocks often operate more domestically than larger U.S. stocks. Therefore, they can be less exposed to currency fluctuations and trade disputes. In the second quarter, this was a distinct advantage. The Russell 2500, an index of smaller U.S. companies, jumped to a 5.7% gain for the quarter. For the year, it is up 5.5%.

**International Equities:** It has been said that when the U.S. sneezes, the rest of the world catches a cold. To put that into context, generally what affects the United States from an economic perspective results in magnified impacts abroad. This was certainly the case in the second quarter, particularly for international stocks.

International stock returns are a combination of currency movements and local market returns. We have seen the dollar trading higher than other currencies year-to-date. Also, most countries are significant trade partners with the United States. So, *the combination of a higher dollar and the potential for trade disruptions weighed on markets*. International shares edged down 1.2% for the quarter and down 2.7% for the calendar year. As China and the U.S. escalated their rhetoric on tariffs, emerging markets stocks dropped. The emerging markets index fell 8.0% for the quarter and is down 6.7% for the year.

**Fixed-Income:** The usually staid world of bonds went on a bit of a ride as well. The benchmark 10-year Treasury started the second quarter at about 2.75%. Given a stronger economy and the likelihood of multiple rate hikes, patience began to wear thin for jittery bond traders. In just over a month, the 10-year yield jumped to 3.1%. The media and market pundits declared that the long anticipated massive spike in rates had begun.

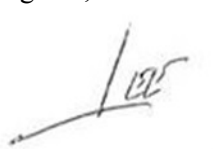
After the initial commotion, bond yields quietly declined, ending very near where they began. The Barclays Aggregate Index, an index intended to reflect the returns of the total bond market, eased down 0.2% for the quarter and is down a modest 1.6% for the year. Municipal bonds were up 0.9% for the quarter and edged down 0.2% year-to-date. High-yield bonds turned in a positive 1.0% for the quarter and are up 0.2% for the year.

Investing can sometimes seem like a bit of a battle. There are constant skirmishes, flows of information and movements back-and-forth. It is often hard to see what is going on through the smoke and noise. Many find it overwhelming. As is often the case, the proper principles can be a powerful ally. Leo Tolstoy often credited as one of the greatest writers of all time, once said, "The most powerful warriors are patience and time."

We are here to help with that. In addition to patience and time, we can add mathematics, knowledge of market history and most importantly knowledge of what is important to you. All of those together create a powerful approach to get you all the way home.

*Thank you for the confidence you have placed in us. We are always here to help.*

Best regards,



Lee V. Stadler  
Private Wealth Advisor  
Registered Representative

Source of data – Barclays Aggregate, TrimTabs Investment Research, Morningstar, Wall Street Journal, Bloomberg, Reuters, Dow Jones Newswires, American Funds, MSCI, S&P Index, The Federal Reserve. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. [CRN-2175758-071118](https://www.crispr.com)