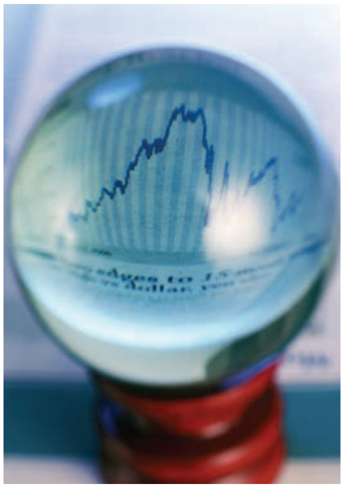
Lincoln Financial Advisors®
A member of Lincoln Financial Group
You're In Charge®

Investment Update

2nd Quarter 2018



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.

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."

This is not to say we ignore market movements and their effect on our clients; far from it. We just take it to another level. One of the principles we use is mathematical inversion, a scientific principle that has been around since the 1800s. Inversion applies the concept that when confronted with a difficult problem you start at the desired result and work backward. This principle, while not widely known outside of mathematics, has been used by investment professionals like Warren Buffett and Charlie Munger for decades. Instead of looking at short-term market movements, we look at our clients and their goals and then work backward to their portfolios. By focusing on the important part of the equation rather than the short-term erratic part, the outcomes are more likely to be much more informed, predictable and of lasting value.

KEYES
& ASSOCIATES, INC.

Domestic Equity

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, 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.

PERCENT RETURN AS OF 6/30/18

EQUITY INDEXES	2ND 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
BOND INDEXES			
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
CASH EQUIVALENTS			
3-Month T-Bill	0.5	0.8	0.7
CONSUMER PRICE INDEX	**0.4**	**1.1**	**1.9**

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.

PROOF

The content of this material was provided to you by Lincoln Financial Network for its representatives and their clients. Lincoln Financial Network is the marketing name for Lincoln Financial Advisors Corp. and Lincoln Financial Securities Corporation.

Source of data – 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.

PROOF

Whether the market is up or down, we are here for you

Keyes & Associates, Inc.
121 Spruce Avenue
Fairbanks, AK 99709
907-452-6393 Office
907-452-1600 Fax
www.lfa-fairbanks.com

©2018 Lincoln National Corporation
LincolnFinancial.com

CRN-2081086-040618
POD 7/18 Z03_VDP
Order code: AMC-QNEW-FLI001
LFAC-QNEW-FLI001

Keyes & Associates, Inc. is a marketing name for individuals registered with Lincoln Financial Advisors Corporation.

Securities and investment advisory services offered through Lincoln Financial Advisors Corporation, a broker-dealer, member SIPC, and registered investment advisor. Insurance offered through Lincoln affiliates and other fine companies.

In CA, insurance offered through Lincoln Marketing and Insurance Agency, LLC and Lincoln Associates Insurance Agency, Inc. and other fine companies.

In MI, securities and investment advisory services offered through Lincoln Financial Advisors Corporation, a broker-dealer, registered investment advisor and an insurance agency.

In UT, LFA Insurance Agency. Insurance offered through Lincoln affiliates and other fine companies.

In WA, insurance offered through Lincoln Financial Advisors Corporation and LFA Limited Liability Company and other fine companies.

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates. Affiliates are separately responsible for their own financial and contractual obligations.

Keyes & Associates, Inc. is not an affiliate of Lincoln Financial Advisors Corporation.

Lincoln Financial Advisors®
A member of Lincoln Financial Group
You're In Charge®

KEYES & ASSOCIATES, INC.