FINANCIAL CONSULTANTS, LLC
An Independent Practice

2nd Quarter Newsletter

July 2019

Hope your summer is going well. As we head toward late July, it is hard for me to believe it has been 50 years since Neil Armstrong and Buzz Aldrin stepped on the moon. More on that later.

Recent Market Performance

US based stocks continued their advance in the second quarter while foreign indices declined. Still all are well into positive territory for the year. Bond indices advanced during the quarter due to a decline in interest rates.

Stocks Index Total Returns Data as of June 30, 2019	YTD Results	10 Year Results
Dow Jones Industrial Average (DJIA)	15.40%	15.03%
Standard & Poor's 500 (S&P 500)	18.54%	14.70%
Russell 2000 (Small US Companies)	16.98%	13.45%
MSCI EAFE in US $ (Europe, Australasia, Far East)	14.03%	6.90%
MSCI Emerging Markets (in US $)	9.22%	3.32%
MSCI ACWI NR (in US $)	16.23%	10.15%

Bonds - Total Returns Data as of June 30, 2019	YTD Results	10 Year Results
BarCap Municipal Total Return	5.09%	4.72%
BarCap Aggregate Bond Total Return	6.11%	3.90%

Mutual Fund Index Total Returns Data as of June 30, 2019	YTD Results	10 Year Results
Large-cap Growth	21.60%	16.46%
Large-cap Value	13.75%	12.27%
Small-cap Growth	22.38%	14.84%
Small-cap Value	12.72%	13.64%
World Allocation	10.40%	7.13%
Foreign Blend	13.58%	6.44%

Please see index definitions at the end of the newsletter. Source: Morningstar

*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

Financial & Investment Comments

Well, following the prior two quarters in which we had both highly negative and positive results, the April – June results were relatively calm.

During the quarter, I had an opportunity to hear the new Chief Investment Officer, Larry Adam, at the Raymond James National Conference in Las Vegas. He gave quite an impressive and thoughtful presentation. For your review, I have enclosed a copy of his Investment Strategy Quarterly letter in lieu of any new comments from me. I invite you to take a glance at it.

As always, please call or email if you have any questions about your investments and financial plans. We are here to assist you in making decisions to help you reach your ultimate goals.

In Conclusion

Thank you for your trust, confidence and friendship. As always, I am truly grateful for the opportunity to be of service. Also, I want to add a special thank you to those who referred new clients recently. We continue to accept a limited number of new clients. Enjoy the rest of your summer. I will write again in October.

Best regards,

Mark

Mark D. Aldridge, CFP®, CFA®, ChFC®
Financial Advisor, RJFS

Index Definitions

Dow Jones Industrial Average (DJIA) -- an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.
S&P 500 -- an unmanaged index of 500 widely-held stocks that's generally considered representative of the U.S. stock market.
NASDAQ Composite -- an unmanaged index of securities traded on the NASDAQ system.
MSCI EAFE -- a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada.
MSCI ACWI -- The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2009 the MSCI ACWI consisted of 45 country indices comprising 23 developed and 22 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.
Russell 2000: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.
Barclays Capital Aggregate Bond Index -- a measure of investment-grade, fixed rate debt including corporate, government and agency issued bonds as well as asset-backed securities. Issues must have at least 1 year left to maturity and an outstanding par value of at least $100 million.
Barclays Capital Municipal Bond Index covers investment grade, tax-exempt, and fixed-rate bonds with maturities greater than two years.
MSCI Emerging Markets Index: designed to measure equity market performance in 25 emerging market indexes. The index's three largest industries are materials, energy, and banks.
FTSE Eurofirst 300 Index: the 300 largest companies ranked by market capitalization in developed Europe.
Nikkei 225 Index: the leading and most-respected **index** of Japanese stocks. It is a price-weighted **index** comprised of Japan's top **225** blue-chip companies on the Tokyo Stock Exchange.

Morningstar Category Definitions

Large-growth portfolios invest in big U.S. companies that are projected to grow faster than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.
Large-value portfolios invest primarily in large U.S. stocks that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
Foreign large-blend portfolios invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.
Small-growth portfolios focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are

defined as small-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).
Small-value portfolios invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
World Allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.

Other Disclosures

Investment Advisory Services are offered through Raymond James Financial Services Advisors, Inc. Aldridge Financial Consultants, LLC is not a registered broker/dealer, and is independent of Raymond James Financial Services.

Letter from the Chief Investment Officer

Being in the Right Place at the Right Time

Celebrating the 25-year anniversary of the Academy Award-winning movie Forrest Gump, we revisit many of the movie's themes which remain relevant in today's world. Forrest Gump's mother always said that **"Life was like a box of chocolates."** This memorable observation could just as easily be applied to the financial markets, as you never know what volatility-inducing headline you're going to get next.

President Trump's infamous tweets on trade continue to spark serious disputes between the world's most influential superpowers, as a fickle Federal Reserve (Fed), rising recessionary fears, and the upcoming U.S. presidential election top the list of potential domestic risks. Mix in a global economic slowdown, Brexit uncertainty, Italy's budget crisis, escalating tensions with Iran, and the long-running political crisis in Venezuela, and you have the perfect recipe for a volatile market. While most of these headlines serve as daily noise to give investors both sugar highs (and sugar crashes), we still believe that investors must be prudent with their investments and remain committed to their long-term financial plans.

As Forrest reminds us, **"You've got to put the past behind you before you can move on."** That is exactly what we need to do from an economic perspective. With the U.S. economy poised to notch the longest economic expansion in the history of our country in July (121 months), investors can no longer count on tax cuts, quantitative easing, or early-cycle "bounce back" growth to support the market.

Assuming the trade war does not escalate, our Chief Economist, Dr. Scott Brown, believes this expansion will continue as the Fed is likely to cut short-term interest rates not just once, but twice, before the end of the year. Elevated business and consumer confidence, robust employment conditions, and expectations for healthy consumer spending trends should lead to U.S. Gross Domestic Product (GDP) growth of 1.9% for 2019. While risks have risen, the expectation is that the U.S. economy will not slip into recession over the next 12 months, which is critical in developing our outlook for the capital markets for the next year.

The bond market has us echoing Forrest's question, **"What's normal anyways?"** Given historical precedent, the longevity and strength of the economic expansion, combined with record budget deficits, should have led to higher interest rates. However, this has not been the case. In fact, global interest rates have continued to grind lower and the yield curve remains flat/inverted, depending on the maturities you examine. According to Managing Director of Fixed Income Research, Doug Drabik, central bank bond purchases (particularly in Europe and Japan) have led to more than $13 trillion in negative-yielding sovereign debt. Demographics are also playing a part, as retiring investors transition from risk assets to income-generating securities.

U.S. Treasuries have traditionally been the "safe haven" destination for much of the fixed income world. On a comparative basis, would you prefer a 10-year U.S. Treasury bond yielding 2.01% or a 10-year German bund yielding -0.33%[1]? The answer is obvious, and the excess demand for U.S. Treasuries will likely keep domestic interest rates lower for longer. The likelihood that the Fed will cut rates in order to preserve the economic expansion, combined with unattractive interest rates overseas, has led us to reduce our year-end target for the 10-year Treasury yield to 2.4% (from 2.75%). From a sector perspective, we still prefer emerging market bonds and investment-grade bonds over high yield.

"Run, Forrest, run" could just as easily be "Run, equities, run!" However, to move higher, the equity markets need to shed the "braces" of negativity surrounding trade fears and recessionary concerns. If this does occur, we believe record earnings should continue to propel the equity markets higher. We reiterate our S&P 500 year-end target of 2946. However, should the trade war with China escalate, Managing Director of Equity Portfolio & Technical Strategy, Mike Gibbs, estimates that S&P 500 earnings will fall by ~4%, leading to more uncertainty and downside potential

[1] Source: Bloomberg as of 06/26/2019

for equities. From a sector standpoint, we prefer Technology, Health Care, Consumer Discretionary, and Communication Services. In addition, assuming the Fed embarks upon an easing cycle, we favor cyclicals over defensives, and growth over value-oriented strategies. We maintain our preference for the U.S. over other developed-market equities such as Europe and Japan. If there is any progress on the trade front between the U.S. and China, emerging markets should stand to benefit.

Unlike Forrest and Jenny, oil prices and the U.S. dollar are not like **"peas and carrots."** In fact, there is typically a negative correlation between commodities and the dollar. Tailwinds that previously supported the dollar continue to fade, particularly as the Fed appears set to cut interest rates before year end. As a result, we forecast the dollar weakening slightly to $1.15 versus the euro before year end. A weaker dollar, fading global oil inventories, and the new International Maritime Organization (IMO) standards set to take effect in January 2020 should support oil prices. Our forecast is that oil will bounce back to $70/barrel before the end of the year.**

Forrest Gump is an inspiration to many, as he overcomes significant tribulations in his life through both hard work and good fortune. Admittedly, you need both as a successful investor! He had a way of being in the right place at the right time, as he ended up being part of many of the most iconic events of the twentieth century. That is exactly what we aim to do with our investment strategy views: place your portfolio in the best position to succeed over the long term.

Bubba remarks that **"shrimp is the fruit of the sea,"** as he lists the multitude of cooking methods, pairings, and seasonings that make shrimp so versatile. The same could be said of your portfolio, as there are numerous ways to structure your investments to meet your unique goals and objectives. As volatility is likely to increase, and the return environment becomes more challenging, we encourage you to review your portfolio with your advisor.

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