

May 2019

Here are selected year to date return numbers through the end of April.

Stock Indexes

	(As of 04/30/19)*
Dow Jones Industrials	14.00%
S&P 500 Index	17.50%
NASDAQ Composite	22.00%
Dow Jones World Index (ex. U.S.)	12.00%

	(As of 04/30/19)*
Russell 2000	18.48%
Russell 1000 Value Index	15.90%
Russell 1000 Growth Index	21.35%

Bond Index

	(As of 04/30/19)*
Barclays Cap. Aggregate Bond Composite Index	2.97%

Mutual Funds

	(As of 04/30/19)*
Lipper Large-Cap Growth Index	21.28%
Lipper Large-Cap Value Index	15.86%
Lipper Small-Cap Growth Index	24.11%

(Source: The Wall Street Journal, Russell Investments & Barclays websites)

*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 AND INVESTMENT PLANNING

During the last month or so trade tensions between the U.S. and China have been a major focus of the financial markets.

Based upon my reading I believe most experts, economists and pundits believe there will eventually be a negotiated agreement. Their belief is based upon the economic importance of the bilateral trade to both countries. While we export far less to China than we import, some of our largest companies like Apple, have significant sales as well as manufacturing business there.

There is domestic bipartisan political support here and there is domestic support in China, and this will make finding a solution more challenging.

I think it might be helpful to see where we are in this dispute as of now.

US/China Tariffs – Tit for Tat

As of May 14, 2019

	<u>US Tariffs on Chinese Imports</u>		<u>China Tariffs on US Imports</u>	
Date	New/Additional Tariff	Value	New/Additional Tariff	Value
July 2018	20% on \$50B	\$12.5B	25% on \$50B	\$12.5B
September 2018	10% on \$200B	\$20B	5% -10% on \$60B	\$3-6B
May 2019	15% on \$200B	\$30B	5% - 15% on \$60B	\$3 - \$9B
Future?	25% on \$300B	\$75B	N/A	

Note: Does not include US tariffs implemented globally on imports of washing machines, solar panels, steel and aluminum.

Source: Peterson Institute for International Economics, First Eagle Investment Management.

I also believe this U.S./ China tariff conflict is part of a larger competition for global power and even dominance. Older readers will recall our competition with the former Soviet Union. These phenomena can last for years and can have political, military and economic dimensions.

On that cheery note, let me turn to two other unrelated topics. In 2018 U.S. corporate profits grew at robust rates. That rate of growth appears to have slowed in 2019. Here are earnings per share growth estimates for the various industry sectors of the S&P 500.

2019 EPS growth estimates year over year

Industrials	8.05%	S&P 500 Index	3.81%
Financials	7.60%	Real estate	2.21%
Consumer discretionary	7.14%	Information technology	1.86%
Utilities	6.48%	Consumer staples	1.20%
Communication services	5.57%	Materials	-3.22%
Healthcare	4.73%	Energy	-12.40%

Source: FactSet, as of 3/31/18. Earnings per share (EPS) is a measure of how much profit a company has generated calculated by dividing the company's net income by its total number of outstanding shares. Past performance does not guarantee future results.

This does not necessarily have a predictive element for U.S. stocks. Last year the S&P 500 posted a negative return, and so far this year, even with subdued earnings growth expectations, U.S. stocks have enjoyed positive returns.

Finally, since rates of return on cash have risen recently, and actually outperformed the Barclay's Aggregate Bond Index in 2018, I think it is helpful to look at how bonds perform relative to cash.

In the past quarter century cash outperformed bonds seven times and bonds regained the lead in each subsequent year but one.

Here are the return numbers for the last ten years.

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
Cash	0.37	0.24	0.19	0.15	0.12	0.09	0.14	0.51	0.86	1.92	0.63
Bonds (%)	5.93	6.54	7.84	4.21	-2.02	5.97	0.55	2.65	3.54	0.01	2.94

Source: FactSet, as of 3/31/19. Cash is represented by the Bloomberg Barclays U.S. Short Treasury (3-6 Month) Index, which tracks U.S. Treasury bills, notes, and bonds with less than a year to maturity. Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, which tracks the performance of U.S. investment-grade bonds in government, asset-backed, and corporate debt markets. It is not possible to invest directly in an index. Past Performance does not guarantee future results.

Thanks for taking the time to read this month's letter.

Warm regards,



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- **Past performance is not indicative of future results.**
- The Dow Jones Industrials is an index of 30 stocks that is considered representative of the overall market.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.
- The Dow Jones Global ex-U.S. Total Stock Market Index includes equity securities with readily available prices that trade globally, excluding the U.S. The index is a subset of the Dow Jones Global Total Stock Market Index.
- The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks.
- 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.
- The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- The Barclays Capital U.S. Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.
- Lipper Large Cap Growth Fund Index. An unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Large-Cap classification. Lipper Small Cap Growth Fund Index – an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Small-Cap classification. Lipper Large Cap Value Fund-Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) above Lipper's USDE large-cap floor. Large-cap value funds typically have below-average characteristics compared to the S&P 500 Index.
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