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July 2019

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

Stock Indexes	
	(As of 06/30/19)*
Dow Jones Industrials	14.00%
S&P 500 Index	17.30%
NASDAQ Composite	20.70%
Dow Jones World Index (ex. U.S.)	11.40%
	(As of 06/30/19)*
Russell 2000	16.98%
Russell 1000 Value Index	16.24%
Russell 1000 Growth Index	21.49%
Bond Index	**(As of 06/30/19)***
Barclays Cap. Aggregate Bond Composite Index	6.11%
Mutual Funds	**(As of 06/30/19)***
Lipper Large-Cap Growth Index	21.65%
Lipper Large-Cap Value Index	15.49%
Lipper Small-Cap Growth Index	22.28%

(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

Long time readers may recall that I receive lots of investment and economic information every calendar quarter. I select a few items that I believe you will find interesting and possibly even thought provoking. For the record, many people, especially my family, have found me provoking for a very long time.

Here we go.

Growth stocks continue to outperform value stocks.

Returns and valuations by style

2Q 2019

	Value	Growth
Large	3.8%	4.6%
Mid	3.2%	5.4%
Small	1.4%	2.7%

Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. All calculations are cumulative total return, including dividends reinvested for the stated period.
Guide to the Markets **– U.S. Data are as of June 30, 2019**

While as I write this, the financial press is celebrating new highs in the U.S. stock market, I think these data give us a little better perspective.

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.9%, annual returns positive in 29 of 30 years

	Intra-year decline	Calendar year return
2010	-16%	+13%
2011	-19%	0%
2012	-10%	+13%
2013	-6%	+30%
2014	-7%	+11%
2015	-12%	-1%
2016	-11%	+10%
2017	-3%	+19%
2018	-20%	-6%
2019	-7%	+17% YTD

Source: FactSet, Standard 7 Poor's J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year.
For illustrative purposes only.
***Guide to the Markets – U.S.* Data are as of June 30, 2019.**

Since 1900 the average length of economic expansions is 48 months. The average length of recessions is 15 months. Through the end of June 2019 the current economic expansion has lasted 120 months. This assumes the current expansion started in July 2009 and continued through June 2019, lasting 120 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER).

Those of us who pay attention to the economic news are aware that our unemployment rate is at a 50 year low. However, here is the unemployment rate by education level.

Unemployment by educational attainment

Education Level	**June 2019**
Less than high school degree	5.3%
High school no college	3.9%
Some college	3.0%
College or greater	2.1%

Source: J.P. Morgan Asset Management: BLS, FactSet
Unemployment rates shown are for civilians aged 25 and older.
***Guide to the Markets – U.S.* Data are as of June 30, 2019**

If you spend time reading the financial press, you will be familiar with the term yield curve inversion. If on the other hand, you have better things to do, allow me to describe why some people feel it is significant.

In normal times, longer term Treasury bonds and for that matter most bonds, are priced to have a higher yield than shorter term debt. For example, a 10 year Treasury note would have a higher yield than a 2 year note. This is called a positive yield curve.

Occasionally the reverse will happen. Shorter term bonds will be priced to yield more than longer term debt. Economists and market pundits observe that this phenomenon, called an inverted yield curve, is often a precursor/predictor of a recession.

The U.S. Treasury yield curve has been inverted for approximately 6 months.

Does this mean we are headed for a recession? Who knows? However, here are some interesting historical numbers.

U.S. yield curve inversion and recessions

Date of inversion prior to recession	**Time to recession**
April 11, 1968	19 months
March 9, 1973	7 months
August 18, 1978	16 months
September 12, 1980	9 months
December 13, 1988	18 months
February 2, 2000	12 months
June 8, 2006	17 months
Average	**14 months**

Source: FactSet, Federal Reserve, J.P. Morgan, Asset Management.
Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to recession and the onset of recession.
***Guide to the markets – U.S.* Data are as of June 30, 2019**

And finally, for the last several years I have been reading about the shale revolution and hydraulic fracking in oil and gas exploration and production. Since oil and natural gas are important to the global economy, I think the following numbers are interesting. These are production and consumption number changes over the last 4 years.

Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

Production	**2016**	**2017**	**2018**	**2019***	**2020***	**Growth since '16**
U.S.	14.8	15.7	17.9	19.8	21.3	43.5%
OPEC	37.5	37.4	37.3	35.3	34.7	-7.3%
Russia	11.3	11.2	11.4	11.5	11.8	4.6%
Global	**97.5**	**98.1**	**100.7**	**100.9**	**102.8**	**5.5%**
Consumption						
U.S.	19.7	20.0	20.5	20.6	20.9	6.1%
China	12.8	13.4	13.9	14.3	14.8	15.9%
Global	**96.9**	**98.5**	**99.9**	**101.1**	**102.6**	**5.8%**
Inventory Change	**0.5**	**-0.4**	**0.7**	**-0.3**	**0.3**	

Source: J.P. Morgan Asset Management; EIA.
***Forecasts are from the June 2019 EIA Short-Term Energy Outlook and start in 2019.**
***Guide to the Markets – U.S.* Data are as of June 30, 2019**

PERSONAL

I have not heard from Drew regarding a monthly update on his activities. However, I know he traveled to Washington, D.C. and spent several days with his girlfriend Whitney.

During the summer months he travels from the desert of West Texas and spends several weeks in Montana. Last year he sent me photos of his camp site. It is on a stream with a view of the mountains on the horizon. It looks idyllic to me.

Laura picked up a modeling job on a clipper ship/sailboat on the Mediterranean. She compares the vessel to a Christopher Columbus style ship. She spent time in various ports in France, Italy and Spain. She said every day was breathtaking. This is her second job with this company and is enjoying getting to know the staff and guests. There were some hiccups along the way which caused a complete change of ports. Laura says she was surprised and pleased with the changes. It was another opportunity to simply go with the flow. Laura modeled on the ship, in the water and on several beaches. She said she feels so blessed to have opportunities like this to see such gorgeous places with new friends.

During the first week of July, the central office for Austin ISD is closed. Lindsey spent the time away from the office relaxing and recharging, filling her time with exercise, yoga and some pampering. In the middle of the week, she, Nathan and Lucy drove to Galveston Island, which is about 3.5 hours from Austin, on the Texas coast. They rented a condo at a resort with another family with whom they often travel. The resort had easy access to the beach, and the most popular amenity was the lazy river and waterslide.

As it gets hotter in Austin, Nathan, Lindsey and Lucy spend much of their spare time swimming at pools and natural swimming holes around town. While Lucy has grown up swimming, this is the first summer she seems to have really gotten the hang of it and is enjoying it. In the past couple of months, Lindsey and Nathan have also noticed a dramatic increase in Lucy's Spanish language conversation skills. Lucy has always been a very verbose little girl, and now she is often using Spanish to express her thoughts and feelings. Lucy will continue at her Spanish immersion preschool program next year.

Nathan has had an eventful month at work. He has attended several summer associate events, which are recruiting events designed to give law students a taste of summer fun in Austin. He also continues to gear up for a fall trial in a false advertising case in federal court, a fall arbitration in a dispute between a group of healthcare providers and an insurance company, and depositions in a RICO case pending in New Jersey state court and New York federal court.

In mid-July Claire and I traveled to Chicago. Every year I chair the Chairman's Council* Retreat. This event brings together senior management of Raymond James and top level financial advisors from around the country. While Raymond James sponsors the event, a volunteer committee plans the agenda. Members of Raymond James management speak and advisors share practice management experiences. I find this to be very professionally productive and it is always fun to be with friends.

Claire joins me for one day and then spends several days with two college sorority sisters and good friends. Jill flies in from Omaha and Judy lives in the Chicago area. They stay at Judy's home.

This year they had an uninvited guest. Me. The morning I arrived at O'Hare airport to fly home there was a prolonged thunderstorm. They closed the runways for four hours, and when the facility was re-opened, there were no available flights to Austin on any airline.

The women were very generous in allowing me to stay with them. And while I tried to maintain a low profile, I really enjoyed my visit. Because Claire and I met at the University of Iowa, I have known her friends for a very long time. They are also friends of mine. We had lots of fun together.

Thanks for taking the time to read this month's letter. As always, Claire, Lisa, Linda and I value your trust, confidence and friendship.

Warm regards,

Carl

Carl W. Stuart
Financial Advisor

CWS/lah

- **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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- Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

* Membership is based on prior fiscal year production. Re-qualification is required annually. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of advisors future performance. No fee is paid in exchange for this award/rating.