



October 2018 Market Commentary

Fraudulent emails continue to remain an issue that we all battle. There has been a rise in fraudulent emails that appear to be sent to clients from Schwab. Pay close attention to the actual email address in your Schwab emails. Schwab will never ask for information to be sent back by email. Rather, you will always be directed to log into the Schwab website. We, along with Schwab, strongly recommend using two-factor authentication when you are accessing your www.schwab.com profile.

As of the last day of September, the S&P 500 Index is up 8.99% for the first three quarters of 2018. It seems as if the markets have moved up relatively unnoticed all year long. We saw volatility surge back in February, but it has again waned. Mid-term elections are coming up in November and may bring volatility back with it, but we would view this as a distraction from the bigger picture.

Taking a step back and reviewing the valuation of the S&P 500 Index along with the economic fundamentals, we continue to be optimistic about the foreseeable future. Interest rates remain historically below average, the unemployment rate is at multi-decade lows, new claims for unemployment insurance is at multi-decade lows, wage inflation appears to be creeping up, productivity has been improving, business optimism remains elevated, and consumer sentiment and spending are up.

It is counterintuitive, but *worry* is a good and healthy characteristic of a bull market. *Worry* leads to opportunity. So as long as headlines cause investors to worry (i.e. – trade wars, student debt, new market record high, etc.) we view it as generally healthy to the long-term uptrend.

As stated by Sir John Templeton:

“Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria”

It's impossible to say where we may be in the wave of the market cycle but given Sir John Templeton's quote and the economic fundamentals listed above, we would like to believe that we are somewhere between “grow on skepticism” and “mature on optimism”. Euphoria is almost visible in the form of gross over-valuations of the markets which we don't currently have. The S&P 500 Index remains in the normal long-term range of 15-18 times earnings.

We remain positive on this bull market and the continued growth in equity markets.

Tom