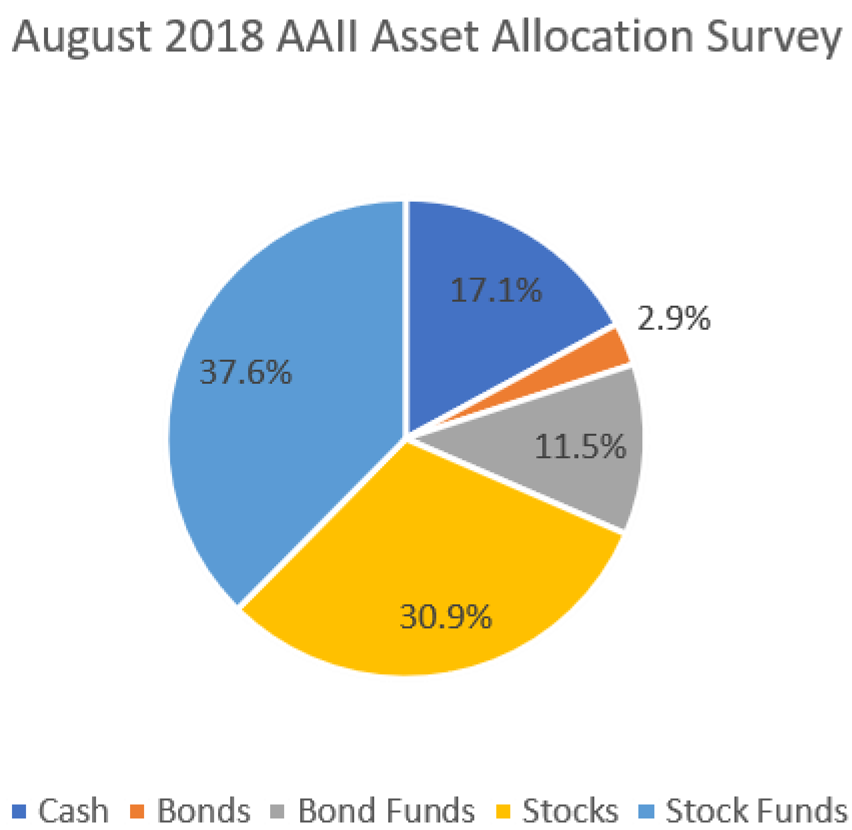
October 4, 2018

Thank you for reading GreenThought$. It is our privilege to provide you with our insight on current financial market events and our outlook on topics relevant to you.

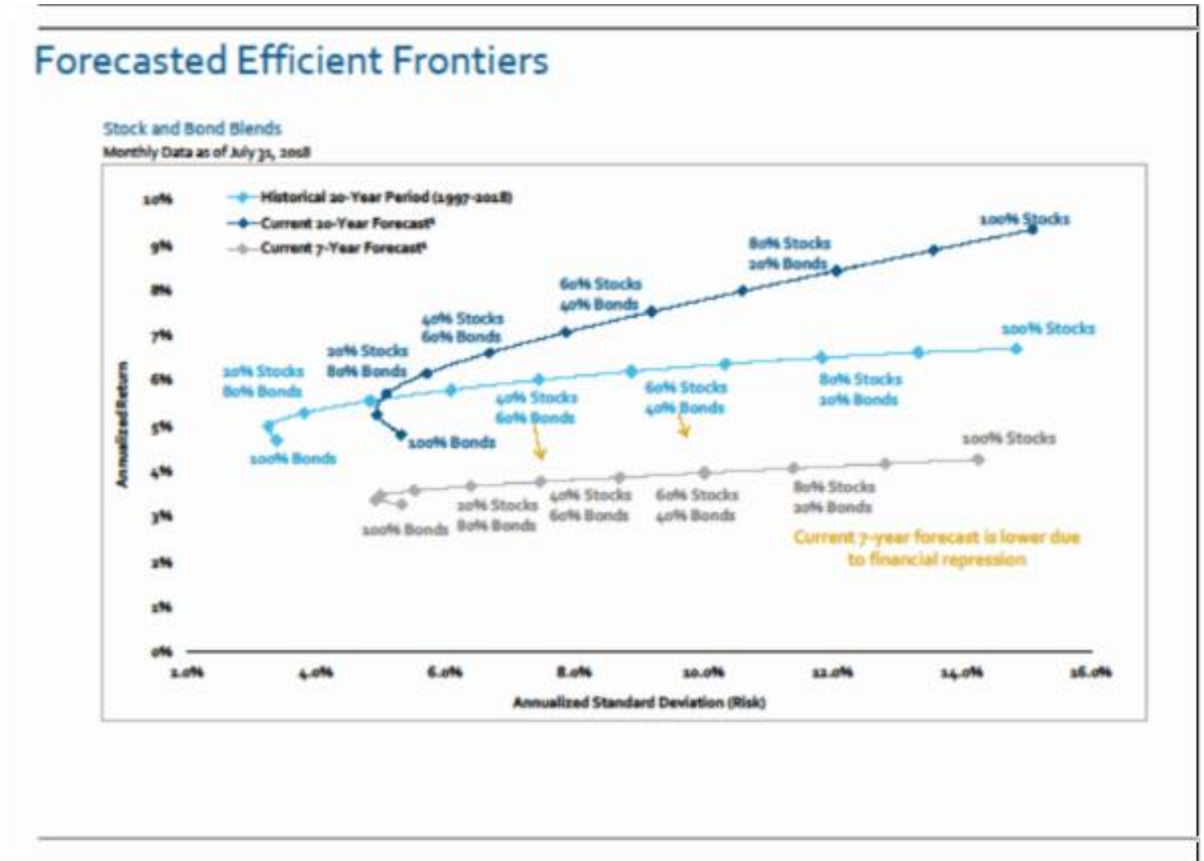
Third Quarter 2018: Capital Markets Commentary

We have a lot of charts to review this quarter, so let’ s dive right in. Consumers are feeling good, per the chart below. Confidence is at a high not seen since early 2001, as are assessments of the present situation, and expectations for the future.

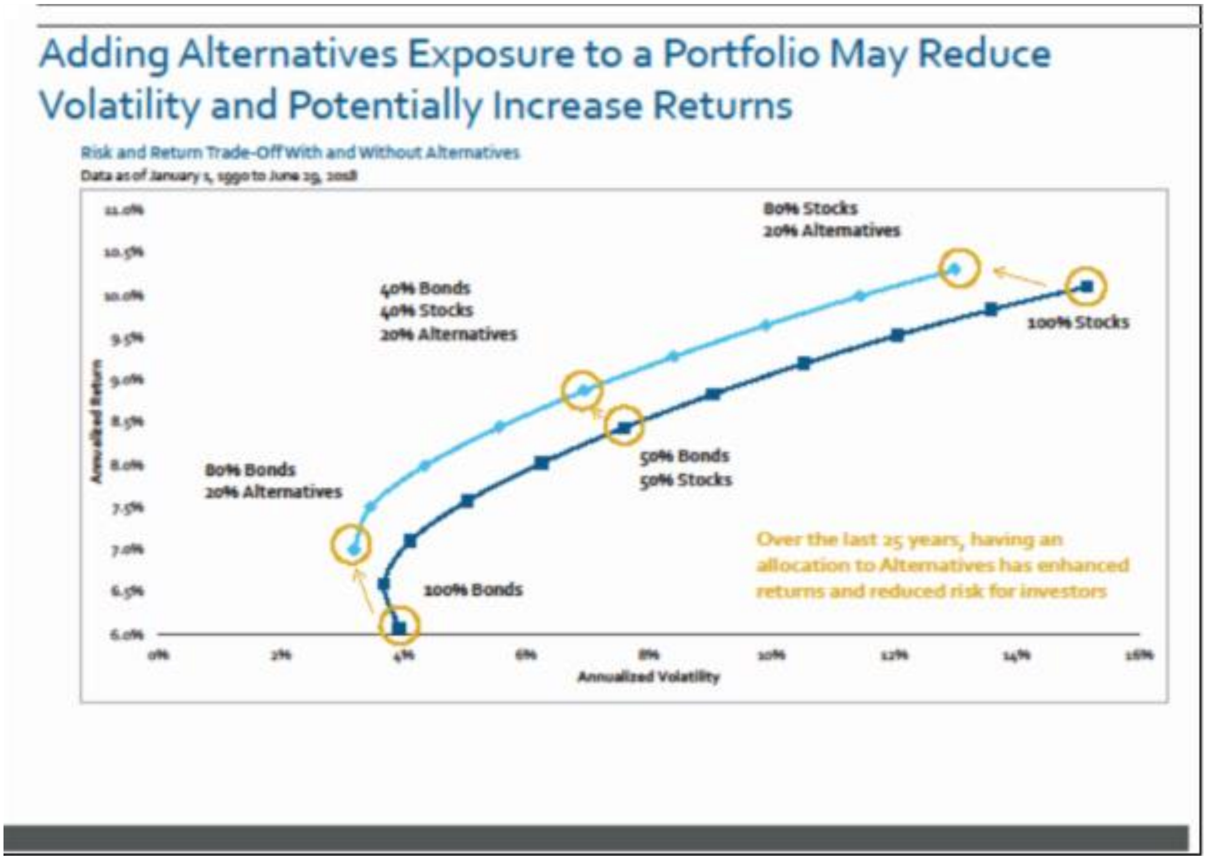
That is a good news/bad news scenario. The good news is reflected in another year (so far) in the bull market that began in 2009. The bad news is that as of the end of August, the American Association of Individual Investors had a survey that showed Investors have 17.1% of their assets in cash. While that is up slightly from the prior month, the historical average is 23%. What that tells you is that while consumers and investors are feeling good, they have already acted on those good feelings by putting their cash to work. Stocks need new investors for prices to continue rising, and lower cash reserves mean less cash to invest.



The next chart, from Morgan Stanley, is a forecast of what a blend of stocks and bonds can expect to return, annually, over the next seven years. You' ll note that regardless of the mix, the expected return is only between 3 – 4%, far lower than the historical averages as well as the longer-term forecast. This is due to financial repression, which refers to the central banks around the world having kept interest rates artificially low to help with the recovery from the financial crisis of 2008. Those low interest rates raised the values of stocks and bonds to a level where basically many of the gains from subsequent years may have been pulled forward, limiting the possible gains over the next seven years.



So as investors, what do we do in an environment where prices for both stocks and bonds are high? We believe the answer is shown in the chart below. Alternatives can include investments like precious metals, hedge funds, preferred stocks, and real estate. Including these investments in a portfolio can boost returns as well as reduce volatility. Some of these investments, like hedge funds and real estate, offer less liquidity than stocks and bonds, which is why they can be less volatile. Investors often act emotionally, selling their investments in times of turmoil, so having some investments that must be held for a fixed period of time may actually work to the investors' advantage. In the real estate space, for example, we tend to look for private deals rather than publicly traded REITs. Both invest in real estate, but a publicly traded REIT can trade more like any other stock than real estate, which lessens the advantage of having real estate in the portfolio. Investing in alternatives can involve a little more complexity than just stocks and bonds, so we would encourage you to speak with your advisor to learn more and to what extent you may want to consider making additional investments in this area.



And now the statistics:

As of September 30, the S&P 500 is up 10.6% for the year. The gain is a little misleading, because almost half (5.16%) of the gain is due to three stocks, Apple, Microsoft and Amazon. In contrast to the S&P, the index of international stocks (EAFE) is down 1.4% this year, and the U.S. bond market index is down 1.6%. Emerging markets were the big loser, in part due to the strength in the dollar. Emerging market equities are down 7.7% so far this year, and emerging market debt was down 4.6%.

So what does it all mean? Barring a sharp drop in the S&P 500 in the last quarter of the year, the index is on track for its 10th positive year in a row. Consumers are feeling good, wages are rising, the GDP is strong, and new trade deals are being signed with our global partners. Our world is increasingly interconnected, and we're hoping to see some of the strength domestically start to spread out to other markets around the world. In the meantime, if "location, location, location" is the mantra in real estate, we'd say the mantra in investing is "diversification, diversification, diversification." Your partners here at Emerald will continue working with you to ensure your portfolio allocation is appropriate for your investing goals and risk tolerance. Please call us if you have any questions.

Regards from the Emerald Team

EMERALD ASSET ADVISORS, LLC

EMFO Emerald Multi-Family Office

Disclosure
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Clients are urged to compare the custodian's account statements to the advisor's supplemental statements. Please contact us if you do not receive statements from your custodian.

As of August 2016, Schwab no longer sends month-end statements for those accounts where there has been no activity for the preceding month; these accounts will be receiving quarterly statements.

About Emerald

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