

# KACHKOVSKY & FISHER

REGISTERED INVESTMENT ADVISOR

Summer 2019

For many people, there's no better way to unwind than by spending an afternoon on a beautiful, freshly mowed golf course, swinging away the stresses of everyday life. This would have no doubt distressed King James II of Scotland, who banned the sport in 1457 because he determined that it was causing his parliament to neglect their military training. Despite the initial attempts to eradicate the sport, golf has grown exponentially since the 1400s. According to *Forbes* magazine, 24M Americans count it among their preferred pastimes. Unlike most other sports, you don't have to worry about someone derailing a great shot by tackling you or stealing the ball. Instead, whether your performance is impressive or disappointing is almost entirely up to you. More often than not, however, what makes golf great are the people with whom you enjoy it. After all, who doesn't want an excuse to spend a few hours outdoors with close friends? We hope that in August – the National Golf Month - you find time to grab your clubs and hit a few rounds.

Let's take a look at the numbers.

	(As of 6/30/19)
Dow Jones Industrials	+ 14.03 %
S&P 500 Index	+ 17.35 %
NASDAQ Composite	+ 20.66 %
Russell 2000	+ 16.17%
MSCI EAFE Index	+ 11.77 %
MSCI Emerging Markets	+ 10.58 %
<b>Major Bond Indexes</b>	(As of 6/30/19)
Barclays U.S. Aggregate Intermediate-Term	+ 4.73 %
Barclays U.S. Aggregate Short-Term	+ 3.58 %
Barclays Global Aggregate Government	+ 5.08 %

## Source: The Wall Street Journal and Barron's

\*Inclusion of these unmanaged 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.

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# FINANCIAL AND INVESTMENT PLANNING

*“Life was like a box of chocolates.”*

... Forrest Gump’s mother

The memorable quote above applies to our financial markets, as you never know what headline is coming next. Recent events include President Trump’s ongoing tweets about trade, talk of a global economic slowdown, Brexit uncertainty, increasing tensions with Iran, the budget crisis in Italy and the crisis in Venezuela. While headlines can move the market in the short-term, it is important to remember that they serve as daily noise. We believe investors should be prudent and committed to their investments and long-term financial plans.

Speaking of trade, Scott Brown, Chief Economist at Raymond James recently shared his thoughts, “Many of us tend to think of globalization and trade with China as a recent phenomenon, but that’s far from true. Ancient empires interacted with each other, trading spices, silver and gold. The Silk Road, expanded by the Han dynasty in 114 BC, brought Chinese goods to India, Persia, Greece and Rome. The young United States traded with China after it lost its only source for tea (England) following the Revolutionary War. Trade brought an exchange of goods and cultures, but varied over the centuries as empires came and went. After the Maoist Revolution, China was closed off from the rest of the world until the 1970s, but began to open up in the early 1980s, signing a number of regional trade agreements. The country joined the World Trade Organization (WTO) in 2001. Expansion of port facilities in China as well as in Los Angeles and Long Beach, California, together with a new, larger class of container vessels, led to a rapid increase in exports to the U.S. The rapid growth in trade with China had a negative impact on U.S. manufacturing employment. However, it is important to remember that about half of the manufacturing jobs lost since 2000 were due to technology (mostly robotics).”

According to the New York Fed, the initial 2018 tariffs imposed on Chinese exports to the U.S. ultimately cost the average American household \$419, which increased to \$831 per household when those tariffs increased by 15% in 2019. Scott Brown added, “A tariff is a tax. This tax is paid by U.S. consumers and businesses, not by China. Tariffs raise costs, disrupt supply chains, invite retaliation in the form of increased tariffs against U.S. exports, and dampen business fixed investment.” The threat of further tariffs is diminished in the near term following the meeting of President Trump and Chinese President Xi Jinping at the Group of 20 (G20) summit in Osaka, Japan. Washington Policy Analyst Ed Mills noted, “The pair made commitments to restart trade negotiations, resume certain shipments to Huawei, and for China to purchase a to-be-defined amount of U.S. agricultural products. It is unclear what the long-term implications may be, and no timeline was set for the next round of talks.”

On the domestic front, it seems like talks of a looming recession have been in the air for the last couple of years. In Scott Brown’s view, odds of a downturn have increased but he still believes a recession is not likely within the next 12 months. However, he notes the inverted yield curve does signal an expectation that short-term interest rates will fall. The Federal Open Market Committee (FOMC) opted to leave short-term interest rates as is after its June policy meeting. Following its decision not to change short-term interest rates, the FOMC promised to closely monitor the economic outlook and “act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective.” In his post-FOMC press conference, Fed Chair Powell noted concerns about low inflation and a reemergence of cross-currents – principally trade policy uncertainty and worries about global growth – but indicated that officials wanted more information and to see whether the cross-currents might recede. Investors are anticipating a 25-basis-point cut in the federal funds target range at the July policy meeting.

Looking at fixed income, the Bloomberg Barclays Global Aggregate Negative Yielding Debt Index reflects that the world’s negative debt has risen by 30% this month to a record \$13 trillion. The European Central Bank (ECB) indicated that negative interest rates would remain in place through the end of 2019. The current champion of quantitative easing, Japan, moved ahead with its massive and long-running asset

purchase program. The negative global rates make the U.S. bond market more attractive and put a cap on our bond yields. Our rates are low by historical standards and could remain low for a while. With respect to bonds, one should be careful reaching for yield late in a cycle. It may prevent a bond portfolio from providing stability when the next downturn comes. As always, diversification is key.

Turning to the equity markets, earnings growth expectations of 4% are below the long-term average of roughly 6%, however the moderating trend is not alarming after 20% growth last year. The current S&P 500 P/E of 17.5x is not unreasonable, given low inflation and interest rates, as well as the dovish message from the Fed. The U.S. dollar stabilization as the Fed eases tends to favor emerging markets given the negative correlation between the two asset classes. Progress in the U.S./China trade negotiations could serve as a catalyst for future outperformance.

Despite the seemingly never-ending posturing and gridlock in Congress, a recent bill is garnering quite a bit of attention. As a general rule of thumb, we do not make financial planning or investment decisions based on unpassed Congressional legislation, but thought you may be interested in these recent developments. The SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) overwhelmingly passed the House and now awaits Senate approval. In short, in an effort to help pay to improve the nation's retirement system, the "Stretch IRA" (an ability for an IRA beneficiary to extend distributions and taxes over his/her lifetime) would be replaced with a 10-year payout. Exceptions apply to surviving spouses, minor children (not grandchildren), beneficiaries less than 10 years younger than the IRA owner, and chronically ill beneficiaries. This legislation creates some roadblocks and planning opportunities for those planning to pass retirement accounts to future generations. Talk to us about how this type of change would impact your long-term plan.

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## **PERSONAL**

Arms extended, hands together, toes on the edge of the block, horn goes off and Kora dives into the pool. She whips her arms around and kicks her legs as fast as she can. Soon, her hand hits the wall. Kora looks up and sees her mom and dad standing and cheering above her. The 8 year old can't stop smiling. A week earlier, she told her parents she wanted to try competing in the last swim meet of the year. She won her race

and was only two seconds away from qualifying for state. Angie and Kris had no idea there was a state tournament for kids. Time will tell if Kora wants to swim in competitions for a full summer next year. For now, she enjoys doing handstands in the shallow end of the pool and teaching her little sister swimming strokes.

The Fisher family flew to Wisconsin to see Angie's mom get married. These days, a major part of flight preparation is deciding what stuffies (stuffed animals) make the trip. Macy and Kora were told they could each bring a stuffy on the plane. The instructions of only bringing one seemed cruel to the sisters. They eventually made the tough decision. Mr. Carrots (a bunny) and Penguin (a penguin) were the lucky winners. The wedding was in Door County in northern Wisconsin. It was a beautiful ceremony. Angie's mom is very happy and the family welcomed her husband with open arms.

The family of four spent a weekend in Breckenridge in early July. Saturday morning started with a walk in the woods, observing the incredible fairy gardens. The trail eventually ran into a fast flowing creek. Above the creek were two steel cables. Kora immediately stood on the lower cable, reached up and grabbed the upper cable. Slowly, she made her way across the creek. Next, little Macy used the cables and traversed across. Dad followed suite. Mom refused. She took her shoes off and carefully made her way across the slippery rocks and fast moving water. Later, Macy panned for gold and Kora participated in a ropes course. The early morning walk turned into quite an adventure.



In April, along with their Adventure Guides Circle – the Yuroks - Garry and Ava spent the weekend in Joshua Tree National Park. The winter rains brought renewed life to the desert. Everything was in bloom. The desert floor was a carpet of reds, oranges, yellows, and whites, and clusters of white-green flowers sprouted on long stalks of the Joshua trees. Days were spent developing lasting friendships, scampering rocks, hiking, and stargazing. Although, only less than 80 miles from the sprawling city of San Bernadino, the skies in Joshua Tree are very dark.

Although Elle is not setting any state meet records yet, she learned to swim. Unlike most days, when getting to the pool and reaching for her floaties, she decreed, “I am going to swim on my own today”. That self-determination is really all it took. Within minutes she was treading water, practicing the breaststroke and cannonballing into the pool with her older sister. The next summer goal is bike riding without training wheels.

Winter snow continued to dump into May, so Garry, Emily and Ava snuck off to Mammoth for some late season skiing, while Elle had some quality one-on-one with grandma. The conditions were perfect. Ava

worked hard on transitioning from “Pizza and French Fries” to going parallel. What better way to cap off the day on the slopes than relaxing in the outdoor Jacuzzi as the snow falls gently on the ground below. As of this writing, the Mammoth Ski resort is open through the end of July.

In June, the family spent a relaxing weekend beach camping at Marine Corps Base Camp Pendleton, the Corps’ largest West Coast expeditionary facility spanning more than 125,000 acres. Aside from holding the title of one of the busiest installations and training facilities for Marine, Army and Navy units, the base lays claim to some of the most pristine and beautiful beaches in California. Hard to beat falling asleep and waking up to the sound of waves crashing the shore steps away from camp. In addition to the usual hours of sandcastle building, cartwheels and playing in the surf, the weekend was highlighted by finding live starfish – perhaps the earliest specialists of disguise.

Also in June, Ava finished 1<sup>st</sup> grade. She is a strong reader, a developing writer and is showing some promise in math. She is attentive and respectful in school, often saving her rambunctiousness for the home. Elle continues to entertain us with her ongoing stand-up routine and melts our hearts with her sweetness. But, like most siblings, the girls test each other’s patience and ours. What we often notice is how slowly some days drag on, but how fast the weeks and months are flashing before our eyes. It’s hard to believe that we are deep into summer. We wish you the rest of the year at your pace.

Thank you for your trust, confidence and friendship.

***“The smallest act of kindness is worth more than the grandest intention.”***

**— Oscar Wilde**



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