



MONTHLY UPDATE

Dear Clients:

According to Charlie Munger, *“a lot of people with high IQs are terrible investors because they’ve got terrible temperaments. You need to keep raw, irrational emotion under control.”*

The Month of September in Brief

The last few months have been some of the least volatile we have seen in a long time for the S&P 500 and this past month was no different. The major headline for the month was the Federal Reserve raising rates 0.25%. Although this was expected, the Fed’s have now raised rates three times this year. This is the eighth of the current cycle bringing the target overnight interest rate to the range of 2% to 2.25%. This puts rates in line with expected inflation.

Major Index Data

During the month of September, it was a positive one overall for both stocks representing the S&P 500 (SPY) and for stocks making up the Dow (DIA). Bonds making up the U.S aggregate index (AGG) were down compared to the previous month. The “SPY” and the “DIA” are both up year to date while the “AGG” is down year to date.

Index	Year 2018
AGG (Bonds)	- 3.44 %
DIA (Stocks)	6.82 %
SPY (Stocks)	8.88%

(Source: Bloomberg) ¹

October Outlook

With consumer confidence at an 18-year high our theme is still the same for the remainder of the year. Although, with this last rate raise by the Fed’s, investors are likely to be more in tune with the risk they are taking going forward compared to the risk they have been taking in the past few years. When rates are lower, investors generally take on more risk to try and earn more return. Our in-house risk software can let us know up to a 95% probability on where returns are likely to range between over a 6-month period. We don’t expect the stock bull market to change in the near-term. However, we encourage all investors to know where their risk truly is regarding their portfolios. We think fundamentals favor stocks for now over bonds and cash. We do think returns will likely be less going forward than what most investors expect. In our TrueWealth model portfolios we have been actively reducing international emerging markets, and we will do that further this month. We are going to increase exposure to developed international markets, as we see the need to focus more on domestic U.S. investments while having some developed international exposure for diversification. We are also adding further to our global technology position. As mentioned in past commentary, we do believe a return to actively managing a portion of the portfolios will help us generate additional returns where we see opportunity. We are continuing to use shorter term duration bond positions to reduce interest rate risk. Historically, short term duration bonds perform best when the yield curve is inverted. The yield curve is getting close to being inverted. For diversification purposes we have been monitoring and making changes to fixed income positions (bond holdings) and prefer actively managed fixed income over passive as we been mentioning in our commentary for some time now. It is likely we will be continuing a more active strategy going forward.

We think risk, as usual, will continue to exist in the market this year and volatility is likely to increase. We will continue to monitor this. It is our philosophy not to chase performance which tends to increase risk. We choose to focus on proper asset allocation per any given level of risk tolerance. We recommend strategies such as using fixed and indexed annuities, and short-term bonds as ways to reduce risk and portfolio volatility for more conservative investors. We appreciate the opportunity to serve you. Our goal is building your wealth and controlling your risk!

Thanks,

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