A View from the Tower

Second Quarter Summary 2019

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The markets continued to be quite volatile during the second quarter. As a matter of fact, the average monthly stock market move (positive or negative) over the last nine months has been approximately 5%, with five of these months approaching or exceeding 7%. The list of items to be concerned about continues to linger, including: potential trade wars, particularly regarding China, but with other countries as well; a flattish and somewhat inverting yield curve; Brexit, including a regime change in Great Britain; instability in the Middle East; sluggishness on the manufacturing front; and the continuation of a caustic political environment. All of these have contributed to ongoing questions around domestic and global economic growth. Contrary to what most people would have imagined six months ago, interest rates continued to decline over the quarter, and it is looking more likely that the Federal Reserve will not only shun an increase in interest rates this year, but rather potentially enact cuts one or more times in 2019.

With this backdrop we have experienced a strong upward trajectory in bond prices this quarter, along with a material, positive movement in stocks, despite a difficult May. Indices across the board exhibited positive returns with the S&P 500 up 4.30%, the small-cap oriented Russell 2000 gaining 2.10%, and the MSCI EAFE (developed, international stocks) increasing 3.97%. The bond market produced attractive returns as well with the Barclays Aggregate up 3.08% and the Barclays U.S. High Yield Index posting a 2.50% return.

Year-to-date, returns have been very strong across the board with all the major, domestic stock indices generating returns of at least 15%; mid-caps being the leader at 21.35%. Although attractive from a nominal perspective, international stock returns lagged, with developed countries posting 14.49% and their emerging brethren 10.76%. Bonds have also aided portfolios with the Barclays Aggregate producing a total return of 6.11% and the high yield index almost 10%. Lastly, real estate investment trusts (REITS) benefited from the tailwind produced by falling interest rates, gaining 19.21% for the first six months of the year.

As we move away from the second quarter, we again note the market activity that has transpired over the last nine months, including the continued, potent bounce in the equity markets since late December. During the fourth quarter of 2018, which in some ways seems so long ago, the S&P 500 was off over 14%. This was followed by nearly a full bounce back during the first quarter of 2019. Historically, recoveries have tended to resemble a "W" pattern, with a mixture of positive and negative days/periods, within the context of an overall positive trajectory. However, so far we have experienced much more of a "V" shaped scenario (with the exception of May), with the activity by and large slanted very heavily to the upside. Although this could continue to be the trend, it would still not be unreasonable to expect at least some additional "W" aspects within an overall healthy long-term process; and periods of volatility. However, as counterintuitive as it might seem, it is not without precedent for markets to have a strong first half of the year, followed by a continued overall move up during the remainder.

Regardless of what might happen going forward, the old cliché "patience is a virtue" has not really been needed so far "this time". This has not always been the case historically. Whether comparing "value" to "growth", "international" to "domestic", "large" to "small", or other naturally "competing" segments, maintaining patience may be somewhat painful if one's position is currently behind in the relative performance battle, particularly in the short-term and even if nominal returns are still attractive. This may also occur in the case of more conservative investors who may hold a large allocation of fixed income solutions and see stocks racing by. All of this could be categorized as "FOMO" or "Fear of Missing Out", which at times can lead to knee jerk reactions, and ultimately, potentially bad decisions.

So, what is the solution in these situations? We believe patience. Sounds simple, but not always easy to actually execute. It tends to take discipline, a strong process and behavioral fortitude to persevere in the face of perceived adversity. In other words, a long-term orientation is a key.

Another potential issue, similar to FOMO, is that long-term investing might tend to be viewed as boring by some. And perhaps it should be. Famed economist Paul Samuelson has been quoted as saying, "Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." Investors may try to turn investing into a game or attempt to generate a thrill to a degree. This can lead to making moves just for the sake of taking action; avoiding boredom, in essence. Very few of us actually relish being bored, unless it's possibly while gaining some well-deserved rest on a beautiful, tropical beach. As one might imagine, often these moves of action for action's sake may bring diluted results. Making a conscious decision to more or less stay the course and refrain from making material or even drastic adjustments has historically proven to be the soundest investment strategy.

As has been commented on many times previously in this publication, we believe that having a long-term perspective and patience, are keys to successful investing over time. The last nine months are yet another excellent example of that, along with the possible pitfalls of falling into common behavioral traps that confront all of us on occasion.

As we move into the third quarter, there are economic concerns on multiple fronts as mentioned above. This tends to be the case as there consistently seems to be a list of evolving issues and anxiety producing prognostications. That being said, assuming a low inflation environment continues, the Federal Reserve in effect attempts to place somewhat of a floor under the market, and corporate earnings at least meet expectations, we would look for additional gains potentially over the remaining six months of 2019.

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All of us at Tower Wealth Managers and Country Club Trust Company greatly appreciate
the honor of serving you and your families.
Please don't hesitate to contact us any time we may be of assistance.