JULY 2019

Benefit Financial Services Group

PERSPECTIVES

Talk With Us!

The "Talk With Us!" section of *Perspectives* has moved to the forefront this quarter because we are very proud to announce that Steve Yamshon, Ph.D., and his team at Steven's First Principles Investment Advisors has been acquired by Benefit Financial Services Group effective, July 1st, and is now a part of our Wealth Management team! The acquisition doubles the size of our Wealth Management team here in Irvine and brings with it some terrific new talent and resources.

Steve founded Steven's First in 1986, here in Irvine. He is a renowned value manager and, in fact, teaches value investing at UCLA. Steve has studied at several very prestigious universities in the U.S. and Europe and has collected many industry certifications. Steve will be a Co-Managing Principal of our firm.

Nora Rascon-Brooks, FPQP™, will be Senior Operations Manager and Portfolio Administrator. Arash Navi, CPA, AWMA®, will become BFSG's Assistant Controller and Compliance Manager. Arash just passed the Certified Financial Planner™ exam. Robert Verdugo, CMFC®, is a Financial Analyst and will be our head trader and involved in portfolio management. Finally, Katie DeSantis will be our Executive Assistant and will provide ongoing administrative support and client service.

All will be moving into our offices here in Irvine, so you will be seeing a lot of new faces the next time you come in for a review. It will be our honor to introduce you to these new members of our team. Please join us in extending a very warm welcome to them!

There will be no changes in who or how your portfolio is managed. You will continue to be served by Pat, Mike, Lisa, Kyle and Laura. Our new associates will do the same for their clients. However, now we can support each other, share resources, gain access to resources we couldn't access before, adopt each other's best practices, and support one other in every way possible. We are excited and hope you will be, too!

If you have any questions about this milestone expansion of our firm, please **"Talk With Us!"**

Market Recap

You may recall that in last quarter's Perspectives we observed that Q1 was the best quarter for the S&P 500 in 10 years.[1] That might beg the question, "How do you follow that?" Well, we are happy to announce that with the S&P 500 continuing to rise in Q2, we have just put in the best 1st half of a year since 1997. We'll take it!

However, it wasn't easy. Yes, the stock market continued to build on its Q1 gains through April, but in May we had a 7% pullback in the market, which didn't feel good at all. The catalyst was largely the threat of severe tariffs being imposed upon Mexico to force them to do more to restrain illegal emigration to the U.S. The rapid drop in the stock market caused some to wonder if we were going to see a repeat of Q4 2018, when the stock market dropped nearly 20%. Thankfully, that was not to be, and the market turned around on June 1 and recovered all it lost in May, and then some, by the end of the quarter. Once again, we'll take it!

Bonds had an exceptionally strong quarter also, since interest rates fell. Bond values rise when interest rates fall, and rates fell to nearly historic low levels.[2] In a future edition of "Talk With Us!", we will write about this inverse relationship between the direction of interest rates and the value of bonds, which is, at first, not intuitive at all. The 10-year U.S. Treasury yield dipped below 2% at one point during the quarter. Unfortunately, for investors looking for yield on cash money market accounts or CD's and the like, lower interest rates hurt.

The Score Board

	6/30/19	YTD (Change)
Dow Jones Industrial Average*	26599.96	14.0%
S&P 500*	2941.7	17.3%
NASDAQ Composite*	8006.24	20.7%
MSCI EAFE (USD)*	1922.30	11.8%
Bloomberg Commodity Index	79.65	3.8%
Barclays Aggregate Bond Index	2071.55	6.1%
10 Yr U.S. Treasury Bond Yield	2.00%	-68 bps
30 Yr Fixed Mortgage Rate	3.90%	-70 bps
Prime Rate	5.50%	UNCH
Crude Oil ($/barrel)	$58.47	28.8%
Gold ($/oz.)	$1,409.70	10.3%
U.S.$/Euro	$1.14	0.9%
Core Inflation (ex food/energy)		2.0% **
Inflation (with food/energy)		1.8% **

* Without dividends
** Unadjusted 12-mos. ended May 2019
bps (1 Basis Point = 1/100%)

UNCH (Unchanged)
Sources for Score Board and quoted statistics: WSJ, US Dept. of Labor, Federal Reserve

Portfolio Management

The only significant change we made asset allocation in client portfolios in the second quarter was to start reducing positions in our international value mutual fund where warranted, in favor of adding more exposure to our international growth mutual fund. We left our overall international allocations near neutral relative to our target allocations, as we believe that international markets will outperform U.S markets over the market cycle. International markets are, in our opinion, cheaper than U.S. markets right now.

It is important to note that one of the ways in which we add value in portfolio management is to rebalance allocations when necessary. What does that mean? Let's say that our target allocation to large cap U.S. growth stocks is 20% of your portfolio. And, let's say that because of good stock market performance during the quarter, large cap growth stocks in your portfolio have grown to be 25% of your portfolio. Rebalancing is when we harvest some of those gains and bring the allocation back down to the 20% target. We do so when the allocation reaches a certain predetermined level that we have set. We will then take the proceeds from that sale and invest them in an asset class in which you are underweight, in order to bring it back up to our target weight. That is called selling high and buying low! It takes constant vigilance and time to do this work, however, it is just one of the many ways we can add value to your portfolio over time.

Forecast

When one ponders what will likely happen regarding stock and bond markets over the remainder of 2019, one must start with trade wars and their likely outcome. There is no doubt that they are having a negative effect on global stock markets and a positive effect on our bond market (as investors flee to safety). Over the weekend, President Trump and Premier Xi agreed to re-start trade talks and try to resolve their trade issues. Doing so will take time – at least months and maybe years – but it is for progress that markets are hoping. If we impose no more tariffs on Chinese products, if our trade war with Mexico doesn't flare up again, and if we don't engage Europe in a mutually destructive trade war, then the outlook for stocks the second half of the year looks good. Continuing to rollback regulations, strong consumer spending as a result of low unemployment and rising wages, and inflation that is running at half of what has been the case historically, should also help stocks to gain ground.

There will be a lot of talk from now on from the 20 Democratic and two Republican presidential candidates, but most of that is just noise and posturing. A great many of the positions being expounded upon right now are simply attention getting and improbable, if not impossible, to bring to law. It may seem like the Presidential election is this November, but it is not – it is in November 2020! None of the rhetoric this year should affect stock or bond prices through the end of the year.

To summarize, we see stocks continuing to move up a bit the second half of this year on solid earnings growth. We see companies the world over increasing investment if progress can be made on trade. We see investor sentiment improving, if progress can be made on trade. We believe U.S. stocks are fairly valued now, however, the price/earnings multiple could expand between now and the end of the year, resulting in an additional bump for stocks. We don't see any reason right now for a contraction in the price/earnings multiple, and we certainly don't see any reason to believe there is a recession just ahead.

We are more concerned about bonds than we are stocks. We expect interest rates to continue to fall a bit as we see the Fed lowering the Fed Funds rate by .25% in July and then by another .25% sometime before the end of the year. In our opinion, about half of that is already baked into bond prices. So, we see interest rates perhaps falling just a bit more near term, but then rising later in the year, which will put a bit of a cap on bond returns through the end of the year. We have positioned our bond portfolio considering these expectations.

Sources

1. The S&P 500 is designed to be a leading indicator of US equities and is commonly used as a proxy for the U.S. stock market. Price return quoted.
2. The Barclays Aggregate Bond index is a broad-based index used as a proxy for the U.S. bond market. Total return quoted.

Disclosures