7.31.18

A MILD ATTEMPT TO RIDE THE WAVE – HOPPED OFF

Our current equity exposure stands at approximately -3.5%, as market conditions show a strong probability for a near term pullback of up to 5%. In anticipation of this, we made two strategic purchases of the Proshares Short Dow30 (DOG), buying 5% on 7/30 and another 5% on 7/31 as the price dropped.

As part of our strategy for managing money, we utilize a small amount of the portfolio for tactical trades with the goal of capitalizing on short-term trends. For instance, a strong earnings report can push an individual stock up 5% in a single day! At the same time, the core investments – which represent 50% to 60% of your total portfolio – provide a solid base of securities that have low volatility and produce high-yields, regardless of stock market gyrations and interest rate spikes. Our municipal bonds have also shown themselves to be resilient to spikes in interest rates, helping non-IRA accounts to weather the volatility in bonds. It's important to understand how your core portfolio, along with the higher-yielding money market funds, have performed favorably – especially compared to a combination of investment grade corporate bonds, treasury bonds and mortgage bonds, which on average are down 2% for the year!

We cut our gold position (SPDR Gold Shares GLD) in half earlier this month. Right now, it appears to be stabilizing. There are some seasonality tailwinds for gold, as the August through October period often is favorable for gold prices.

After considerable analysis, we attempted to capitalize on the upside probabilities in a few, carefully selected companies that have beaten earnings estimates for multiple quarters dating back more than two years. We placed small trades in Facebook, Amazon, and McDonalds, looking for potential earnings to outperform expectations driving those stocks up 3% to 4% before selling. Unfortunately, we erred on these trades but were proactive, selling before any more damage could occur. We believe that over the next two weeks, we can easily recapture the loss of 0.50% that the portfolios sustained. We see these portfolio declines as shallow as they equate to having a conservative portfolio of 20% equity during a 2.5% stock market decline. So far this year, the S&P 500 has had four declines of more than 2.5% with two of those declines reaching to drops of over 7%. Recall that during this year's biggest decline of 10%, our portfolios only experienced a 1% loss.

Out of our recent trades, we continue to hold the Energy Select Sector SPDR ETF (XLE). This trade is currently up 1.7% from our purchase point on July 25th. Our purchase of this fund reflects the potential for a short-term upswing in oil prices which generally translates into gains for top holdings of this fund (Exxon, Chevron, Schlumberger, EOG Resources, and Conoco Phillips).

Major stock indexes this year have diverged quite noticeably. The Dow Jones is up just 3% for the year while the tech heavy Nasdaq and the small cap company oriented Russell 2000 are up the most for the year. Typically, the broader indexes like the Dow or the S&P 500 may play catch up to get comparable results with the other indexes. In today's market it may be the Nasdaq that takes an oversized loss and comes down to the lower level where the Dow and S&P 500 reside. Earnings from the technology sector have been astoundingly good although if forward guidance or revenues come out on the lighter side – look out! On Tuesday after the close, Apple will release their second quarter earnings. Watch for this bellwether stock to shake markets either strongly up or down, as Apple is a key component to many of the listed indexes, primarily the Dow, S&P 500, and the Nasdaq.

With the Federal Reserve releasing their interest rate decision on Wednesday afternoon, watch for the usual fireworks in stock, bond, and currency markets. When the dust settles, we will be parsing through the release and looking to gauge if the tone is hawkish (raising rates more than expected in the future) or dovish (slowing down rate hikes due to tariff fears and other embedded risks that may impact stock markets or borrowing).

Economic news this week will offer insights into the health of the economy during the June and July periods and may hold over into the near future. Releases this week include the Personal Income/Personal Spending report, Auto/Truck Sales, and Friday's big National Jobs report with expectations for 200,000 new jobs created in July.

The big number to watch this week is the embedded wage number in the jobs report. You may recall that it was this statistic, which recorded wage growth of .4% or 4.8% annualized, that took down the equity markets 10%+ and the bond market down 2%+ in just eight trading days. As new wage growth numbers came in averaging only .2%, the markets rebounded. Expectations are for .3%, which will not rock the boat too much. Anything higher, though and we should experience a new bout of intense volatility. Remember, anything that resembles higher inflation means higher interest rates and longer increases – all of which will slow the economy and create alternatives to equity investments that are safer.

As always, we will continue posting articles that we believe to be of great informational value on our website, under the "Great Articles" tab, which is linked here:

http://summitplan.com/cgi-bin/htmlos.cgi/great_articles.html.

Additionally, the "Summit Planning Financial Hour" will be live this week on Radio 570-WSYR at 10AM on Saturday. Don't forget to tune in for a recap of the week's events. If you cannot tune in, check out our radio show archive on our website at http://summitplan.com/cgi-bin/htmlos.cgi/radio_shows.html.

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6. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.
7. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.
8. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.
9. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.
10. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
11. The Dow Jones Industrial Average is comprised of thirty stocks that are major factors in their industries and widely held by individuals and institutional investors.
12. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
13. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.
14. The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.
15. CBOE Volatility Index is a measure of the implied volatility of S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).
16. All indices are unmanaged and cannot be invested in directly.