SFS Investment Update

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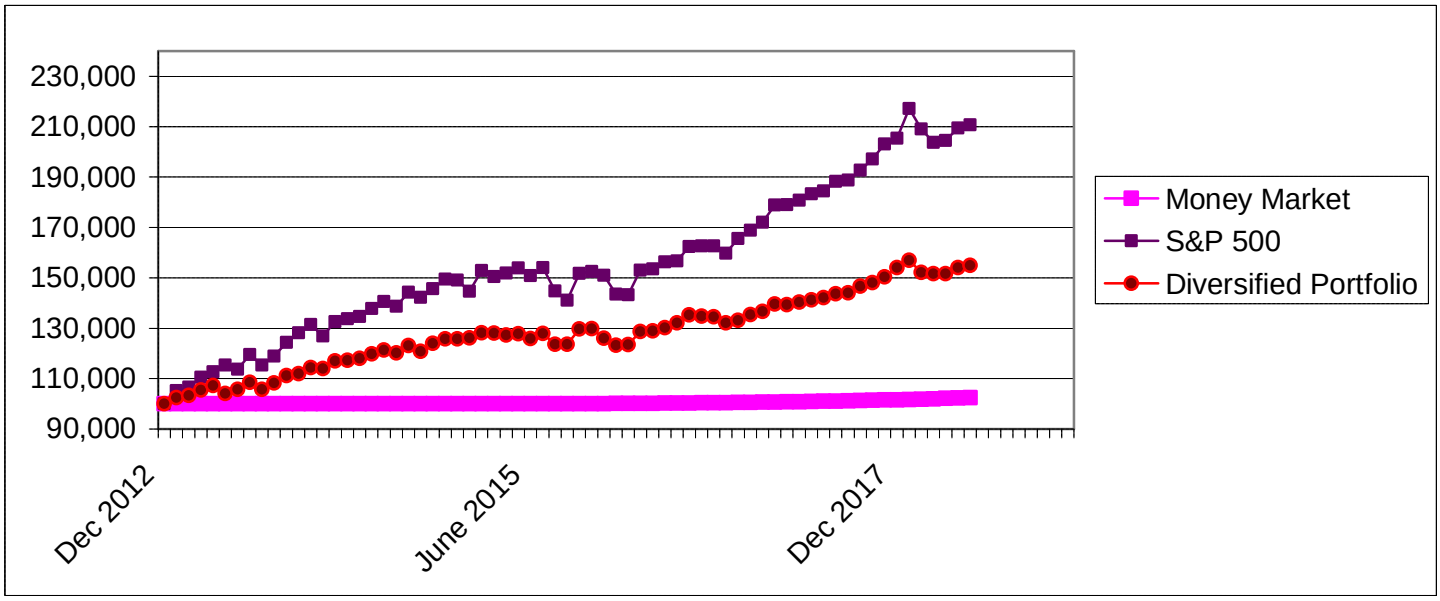
Tweets and Trade

June closed the second quarter of 2018 with only modest changes in most investment markets. As discussed more fully below, we have had a good deal of excitement but little progress since the end of December.



	June	Year-to-Date	Annualized Since 1/1/2013
Diversified Portfolio	**0.54**	**0.53**	**8.28**
Index Components			
U.S. Stocks	0.65	3.23	15.48
International Stocks	(2.07)	(3.62)	6.02
Bonds	0.03	(1.67)	1.53
Real Estate	4.13	(0.07)	8.70
Money Market	0.16	0.84	0.50
S&P 500	**0.61**	**2.57**	**14.51**
Money Market	**0.16**	**0.84**	**0.50**

The diversified portfolio had a small gain in June, up 0.54 percent. Real estate continued its rally from May and added 4.13 percent to essentially move to flat for the year to date. Even as rates continued to exert upward pressure, real estate has moved up in excess of seven percent in the last two months. The rally is partially due to investor recognition that early losses this year were overdone, and second that should inflation return, real estate is historically a good hedge.

U.S. stocks and bonds were positive. U.S. stocks withstood a rough ending to the month and finished up 0.65 percent. Small caps continue a good 2018 and outperformed large caps. For the year to date, small caps are up 5.92 percent compared to the S&P 500 up 2.57 percent. Bonds managed a very

marginal gain of 0.03 percent. Bonds were outgained by cash, which was up 0.16 percent. Bonds also trail cash for the year to date.

International stocks were the lagging investment, down 2.07 percent in the quarter. The fear of an on-going and growing trade war hurt international markets. For other nations, trade represents a larger portion of their domestic economy than in this country. Thus, a trade war will hit their economy faster than ours. There was also a minor “flight to quality” in that the dollar moved up in value. This move is likely more due to the rise in U.S. interest rates relative to other countries, which prompts investors to buy the currency where rates are increasing.

The later part of the month of June was rough for markets, with the Dow down eight consecutive days. Some of this was due to the Fed increasing rates at its June 15 meeting. The language of the announcement hurt even more than the actual rate increase, which had been expected. The announcement seemed to indicate we would have at least two more rate increases in 2018; the Fed was not going to slow down. Investors had hoped for a signal that we may only see one more increase in November.

The other issue was the continuing tweets from the White House on trade and the uncertainty that these messages were creating. As one trader remarked in a CNBC.com story, “It’s like they are making this stuff up as they go along.” Administration officials would contradict the president or attempt to soften his tough rhetoric. Actual announcements would be made that seemed out of line with what anyone had said.

Business does not like uncertainty; we have said that often lately. They cannot plan, invest or hire in an environment where they do not know what public policy will be. We are not as dependent upon trade as say Germany. However, a rise in costs of goods from China, for example, will ripple through the economy fairly quickly. As costs of items from iPhones to t-shirts at Walmart increase, will that drive inflation up? Will the Fed respond faster that those increases noted in the June announcement? If so, does it really make sense to buy that new machine if borrowing rates are headed up? Have that type of scenario move through the country at thousands of businesses and soon everyone is sitting on their hands waiting to see what will happen next.

Rarely does government policy by itself create a recession. However, government actions or lack thereof can make a bad situation worse. Investors understand that and decide to take money off the table.

It just seems very odd that the administration which business thought would be friendly to their interests would also be the one to set up so many hurdles to growth and uncertainty. Maybe all of this confusion will work itself out in the near term. Until then, don’t expect to see owners and investors be willing to make big bets on the future.

As always, we welcome your thoughts and comments.

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