



WELLS TRECASO

FINANCIAL GROUP

Portfolio Talk

Quarter Two 2018



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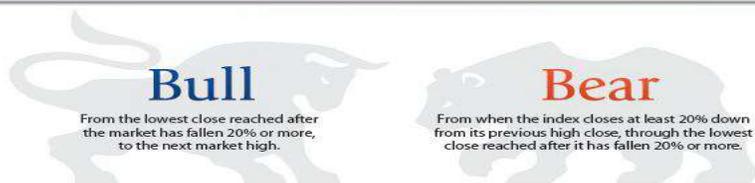
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- The average **Bull Market** period lasted 9.1 years with an average cumulative total return of 476%.
- The average **Bear Market** period lasted 1.4 years with an average cumulative loss of -41%.



Bull
From the lowest close reached after the market has fallen 20% or more, to the next market high.

Bear
From when the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.



Source: First Trust Advisors L.P., Morningstar. Returns from 1926 - 6/29/18.

The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results. The information presented is not intended to constitute an investment recommendation for or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA and the Internal Revenue Code. First Trust has no knowledge of and has not been provided any information regarding any investor. Financial advisors must determine whether particular investments are appropriate for their clients. First Trust believes the financial advisor is a fiduciary, is capable of evaluating investment risks independently and is responsible for exercising independent judgment with respect to its retirement plan clients.

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So what is the message in pointing out these narrowly traded markets? First, what goes up can also come down! Take a look at the Nifty Fifty in the 1970's, many are no longer the companies they once were. The takeover companies of the 1980's became subsidiaries of larger companies or gone. And when we look at the Tech companies of the 1990's, many are just getting back to where they were (Cisco was at \$80 in 2000 and now trades at \$42). Will the FAANG follow the same course or will it be different this time? Apple, Google & Facebook are actually trading at a reasonable if not attractive price/earnings ratio with earning accelerating. Amazon and Netflix on the other hand

are reminiscent of the companies in past bubbles trading with price/earnings ratios of 240x and 288x respectively! Secondly, it tells us that when looking at these narrowly traded high multiple growth companies we tend to overlook the larger companies that like the tortoise slowly grind out earning, increase dividends and continue to grow their operating base. These are called large cap value companies. Their values are often suppressed during times when the large growth companies are moving aggressively. Here in lies the opportunity if we have patience. In the past, over longer periods of time, the two components of the Russell 1000 Index, Growth and Value, have very similar returns. Sometimes one out performs the other, they then flip-flop and the underperformer out performs the other. See the chart below.

Rate of Return as of 7/9/2018

	YTD	1 YR	3 YR Cumulative
Russell 1000 Growth	9.31%	25.74%	54.06%
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JP Morgan Weekly Market Recap DTD 7/9/2018

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Portfolio

The Tax Cuts and Jobs Act of 2017 has given the economy a boost that is driving GDP to 3% plus, something we haven't seen since 2005! Even with the "Trade War" or "Trade Negotiation", 2018 and into 2019 is showing signs of an economy that is absorbing new workers at a record pace. Wages are starting to inflate, albeit at a slow rate, due to the labor participation rate expanding from a low of 62.8%, still well below the record high of 67.3% set in January 2000.^{iv} Earnings are estimated to increase approximately 24% (consensus), substantially higher than last year's 5%+.

In the June NABE (National Association of Business Economics) Outlook Survey "panelists are slightly less optimistic about the U.S. economy in 2018 than they were three months ago, said NABE Vice President Kevin Swift, CBE, chief economist, American Chemistry Council. However, they are much more positive about the prospects for industrial production – anticipating 3.8% average growth in 2018, up from 3.3% gain forecasted in March and significantly from the 2.3% forecasted in the December survey.”^v All looks good, right? Maybe, but a flattening yield curve is of concern in many economic reports these days. The typical spread between the 30 year Treasury Bond and the 10 year Treasury Note is approximately 2 – 2 ½%, meaning a 3% 10 year should have a 30 year at approximately 5 – 5 ½%. Currently the 10 year is trading at 2.85% and the 30 year at 2.96%. What does it mean? Not sure with rates at close to record

lows. Historically, when rates were higher, a flat to inverted yield curve (10 year yields more than the 30 year) has been a warning sign of a coming recession. We're not anticipating a recession. With rates so low we believe the economy is in good shape through 2019. However, we're watching things closely.

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