Ridley Cove Financial Advisors LLC

Second Quarter 2018 Review

Dear Clients:

U.S. stocks rose about 3.5%, world stocks gained about 0.5%, and U.S. bonds declined about 0.2% in the second quarter*. Most client portfolios have declined less than 1% through the first half of this year.

Chief Allocation Strategist Steve Bobo and I would not fault you for having a gloomy outlook as headlines of separated families and summits with dictators continue to swirl. The trade war has caused foreign direct investment in the US to plummet 40% in the past year, and pundits have pointed out that the nearly inverted yield curve has been a reliable predictor of recessions in the past.

BUT…the overall global economic picture remains strong, with the US, EU and China all experiencing at least modest economic growth. Low unemployment in the US and Europe, spare capacity in China and persistent deflationary pressures from technology and global competition suggest that inflation is unlikely. It is now almost undisputed that monetary stimulus accelerated the world's recovery from our financial crisis 10 years ago, and the lag in implementation of stimulus among US, European, Japanese and emerging markets central banks has resulted in less synchronized business cycles. Will nationalism and protectionism overwhelm globalization and competition? We won't know for years, and we think a recession is not likely in the near-term; we think it is more likely that negative headlines will cause markets to overreact and provide us with buying opportunities.

We are particularly intrigued by international stocks, which underperformed the US stock market in dollar terms by nearly 5% last quarter (as represented by the EAFE index). But this is almost entirely due to the strengthening dollar, and when calculated in local currencies, the EAFE international index returned nearly the same 3.5% as the S&P 500! This suggests a healthy future pop from international stocks, so we will keep doing what we do: start with globally diversified allocations and make measured adjustments to increase safety and long-term returns.

*As represented by the S&P 500 US Large Company Index, the All Country World Index, and the Barclays Aggregate Bond Index.

It is hard to imagine 2018 giving us another 20%+ in stock returns, but don’t rule it out completely. Buying assets on the negative headlines sets us up for superior future returns.

Please let us know if you have any questions about your attached quarterly report. Our money continues to be invested alongside yours.

Sincerely,

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