



Third Quarter 2018 Review

Dear Clients:

U.S. stocks have risen about 10.6%, world stocks about 3.8%, and U.S. bonds have declined about 1.6% in the first three quarters this year.*

If you have been with Ridley Cove for more than a year, you have a nice annualized return to inspire confidence. But if you have just recently joined us, you are probably wondering why you didn't just put all of your money in that cheap S&P 500 US large company stock index fund. Besides not putting all of your eggs in one basket, remember the other cardinal rule:

BUY LOW, SELL HIGH.

In addition to overvaluation concerns, Chief Allocation Strategist Steve Bobo and I worry about indiscriminately owning too many weak companies in index funds like the S&P 500. We expect tariffs and US abdication of global leadership in trade deals like the TPP to slow the US economy. International stocks provide protection, and moreover an opportunity: the strong dollar allows us to purchase foreign stocks at a discount; when the dollar weakens, our allocation to international stocks will likely exceed the target, and we will sell some of the foreign investments for the full round-trip benefit: ***BUY LOW, SELL HIGH.***

Economic indicators and events continue to paint a conflicting picture of the health of our economy and global markets. Last week the Federal Reserve raised interest rates for the third time this year and indicated that its monetary policy stance is no longer accommodative. This means the Fed believes that it no longer needs [to say it needs] to keep interest rates low to stimulate growth. Chairman Powell told us that our economy is healthy and steady wage growth suggests only

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

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moderate inflation pressures (CPI is 2.3% year-to-date) as confirmed by the September jobs report. But this past week the yield on the benchmark 10-year Treasury Bond popped up to 3.2%, and the yield curve continues to flatten, leading many commentators to bleat about its accurate prediction of past recessions. We're in a trade war, but we also managed to renegotiate a tri-lateral renewal of NAFTA. It's fun to stay in the USMCA.

In the face of uncertainty, we continue to strive for lower risk and more consistent returns. Please contact us with any questions. Our money continues to be invested alongside yours.

Sincerely,

John H. Biebel, J.D., CFP®

Chief Client Advisor

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