Maryland
11 N. Washington Street, # 720
Rockville, MD 20850
Virginia
20365 Exchange Street, # 200
Ashburn, VA 20147

2nd Quarter 2018 Market Review

A Summary of the Second Quarter

The second quarter of 2018 was a strong one for stocks, with FAANG (Facebook, Apple, Amazon, Netflix and Google) stocks leading the way. The DJIA was up 1.3%, the S&P 500 gained 3.4% and the NASDAQ led all, gaining a very strong 6.3%. As you can see, the greater the influence of the FAANG stocks, the better the index performed.

Index	Q2 performance	Top 5 Holdings in Index (by %)
S&P 500	3.4%	Apple (3.9%), Microsoft (3.3%), Amazon (2.9%), Facebook (2.0%), Berkshire Hathaway (1.5%)
DJIA	1.3%	Boeing (9.3%), UnitedHealth Group (6.9%), Goldman Sachs (6.1%), 3M Co. (5.5%), Home Depot (5.4%)
NASDAQ	6.3%	Apple (11.3%), Amazon (10.2%), Microsoft (9.5%), Facebook (6.0%), Alphabet/Google (4.9%)

U.S. growth-oriented stocks led markets around the globe. For the YTD, the DJIA is relatively flat and off (-0.7%) and the S&P 500 is up 2.6%. Indices with growth components fared much better thus far in 2018, especially stocks less impacted by possible tariffs.

Market Sentiment Disconnected from Market Reality

Be honest, did you think the markets were doing well during Q2? Or that the U.S. was leading the way?

Media coverage of markets is one-sided to sell the fear! Market coverage was off the charts in February when the market fell into correction territory. Stocks are now positive for the year, which means the index regained those losses, *plus more!* Have you heard of this in nearly any media outlet? Instead, we are hearing nothing but fear of a new bubble, or a coming turn on the economy, or how we are destined to another debt crisis – this time from U.S. corporations having record debt levels. Might the management of U.S. companies understand that interest rates are rising, and have decided it was an optimal time to take on financing during record low near-zero rates? Think about it, if a bubble is proposed, that must mean things are above average, at least. If the economy is running the risk of a slowdown, then doesn't this mean we have been moving forward?

Perhaps the news is biased due to a heightened political climate or perhaps it is due to the fact that fear tends to sell much better than "everything is OK, feel free to ignore the news today." I believe it has to do with the economic principle of loss aversion. Simply put, loss aversion is the tendency to feel the pain of a loss much more than the joy of a gain. It is thought that the pain of losing is psychologically about twice as powerful as the pleasure of gaining. In other words, if you were to bet $100 on a football team and they won, you would feel like you just won $100. However, if they were to lose, it would feel like you lost $200!

We tend to become attached to things we own, and feel anxious to give them up. This is especially true with money! Ironically, the more money we have, the more vulnerable we feel. Having accumulated wealth implies that we have more to lose than to gain.

www.halpernfinancial.com

Tel 240-268-1000 Fax 240-449-8818 Toll Free 877-268-1200

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Markets have gained a great deal since the crash hit bottom in the U.S. on March 9, 2009. While investors may not remember the low on that day (I do: 6,507), they certainly remember the fear and concern over markets crumbling. The combination of that fearful experience versus the amazing gains over the past nine years has people more apt to worry then feel safe (maybe even twice as much). Throw in the media spin towards the negative and you get an anxious investor.

Think about this: would you invest in a market when the economy is growing, when the Fed feels safe enough about the economy to continually raise rates, when employment is hitting record levels, when wages are finally growing and 80% of companies in the S&P 500 have exceeded earnings forecasts? I, for one, would favor putting my hard earned dollars into securities in this kind of market climate. Yes, markets tend to price in anticipated events. And, it is true we may in fact be heading towards a change in our economic cycle (at least the tail end of the mid-cycle growth phase). One thing for certain, this is a better time than it has been anytime in over a decade!

As you know, we always emphasize the importance of diversification. When so much equity performance is related to one sector (and to a small number of stocks in that sector), we should not expect it to continue indefinitely, particularly since we are seeing a return to normal volatility after a years of strong growth and very little volatility. Speaking of diversification—the Dow Jones Industrial Average provided another example this quarter of its importance. General Electric, which has been a DJIA component for 110 uninterrupted years, has been booted out after continued terrible performance (down -50% since this time last year). Talk about a company that has long been regarded as safe and steady. But there are no guarantees in the market, and we can never know what tomorrow brings. This is why it is so important to be prepared for a variety of scenarios via diversification.

Analysis

Time and time again, markets have proven their ability to “price in” news, adapt, and continue on towards long-term growth. Remember when markets were supposed to tank because of Ebola, potential Grexit, Brexit, and the U.S. election? While all of these are important global events, remember that they do not always impact markets in the way that is predicted in the media. The market itself will show you what its reaction is to world events. We are fortunate to have free markets help to determine ultimate winners and losers!

Your financial goals and the future success of your financial future should not be swayed based on individual news items or cycles in an economy. Because your portfolio is efficiently diversified, the success of your portfolio does not depend upon any particular outcome. The idea is that the portfolio will benefit from some areas doing well to compensate when others do poorly. Absent the knowledge of tomorrow, we must control all that is within our control and be prepared for whatever tomorrow may bring.

Looking Ahead

This quarter is a particularly momentous one—and not just because of the market movements discussed above. This quarter marks the 20th anniversary of Halpern Financial.

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I always joke that I had the tremendous foresight to start an advisory business right before a major tech bust, and then the largest crash since the Great Depression happened 7 years later. I didn't start this thinking, “It's the perfect time for this type of business.” Instead, I found an opportunity to facilitate an advantageous path to markets that was previously unavailable to most individuals. I married this with my passion and belief in the benefits of a disciplined approach to long term wealth accumulation. You just can't time the markets. Even though I do this for a living, I have no idea what tomorrow brings. Although the team has grown from 1 to 11 people and our capacity to serve our clients has grown as our talent now matches our passion, our mission at Halpern Financial remains the same as it was on Day 1—to provide our clients with an efficient path to markets in a fiduciary manner, providing a customized approach for you to meet your own financial goals.

Regardless of the times or what tomorrow may hold, I think the same investment principles will always apply. Be disciplined. Be patient. Think long term. Earn interest, don't pay it. Don't detonate your own financial life. Hold yourself accountable to your goals and be a disciplined saver. Live like your days are counted, because they are! If you doubt me on this one, check the candle count on your next birthday cake!

Commentary Disclosure

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