NorthLanding Financial Partners, LLC

Quarterly Model Portfolio Update

July 16, 2018

U.S. Economy & Financial Market Observations

At mid-year financial markets have posted a mixed bag of results: U.S. large cap stocks, as represented by the S&P 500, completed the halfway point in the year with a total return of +**2.65%,** finding generally solid footing during Q2. International markets, though, have been weak with the MSCI ex-U.S. Index falling **3.8%** and emerging markets indexes down **6.9%** YTD. Global trade uncertainty and U.S. dollar strength has weighed heavily abroad, especially in Asian emerging markets, that are among the more globally-dependent exporters of goods. Bonds have largely floundered in 2018 with the Barclays U.S. Aggregate Bond index down **1.6%**. There have been several pockets of more positive returns, though: U.S. growth stocks completed the mid-year **+7.0%** (while U.S. value companies fell 1.2%)**.** The Russell 2000 index of smaller U.S. companies stood at **+7.7%**, as of June 30th with ***all*** of that gain occurring in Q2.

So, what's causing so much dispersion of return among different sub-sections of equity markets? As usual, the only credible answer is: *"It's complicated."* Small cap stocks, for now, have benefited from the perception that they can remain isolated from a damaging global trade war. Conversely, large U.S. industrials and multi-nationals – typically considered "safer stocks" - have been in the cross hairs of investor fears over escalating tariffs. Generally higher dividend-paying stocks have also suffered because the weight of rising interest rates make their steady dividends less relatively attractive. While investors expect bond prices to fall as interest rates rise, some may be surprised to see the poor performance of such stalwart dividend paying consumer staples stocks. The U.S. consumer staples index, for example, (composed of blue chips like Coca Cola, Proctor & Gamble, and Walgreens) has now shed **6.9%** YTD, despite its generous 2.8% dividend yield.

Index	Year-to-Date
Selected Market Index Performance as of June 30, 2018	***% Total Return***
S&P 500 Composite	2.65%
NASDAQ Composite	9.37%
S&P Consumer Staples Index	-6.9%
Russell 2000	7.66%
MSCI All Country World Index (ex-U.S.)	-3.77%
FTSE Emerging Markets Equity Index	-6.92%
Barclays U.S. Aggregate Bond Index	-1.62%
Barclays Municipal	-0.25%

Despite intermittent "tariff tantrums" and an increasing possibility of two additional Federal Reserve interest rate increases this year, the U.S. economy appears on still-solid footing. A buoyant June jobs report and data indicating that wages recently marked a 2.9% year/year increase (the highest such reading since late 2008) has steadied markets, causing them to look past some of these concerns.

Our outlook for the remainder of the year is positive but guarded. The second quarter earnings season, which gets underway this week, is estimated to show corporate profits increasing nearly 20% over Q2 2017. This magnitude of such an increase is indeed unusual. It's also noteworthy to keep in mind approximately a full *one-third* of that gain is attributed to one-time corporate tax benefits of December's Tax Cuts and Jobs Act. If trade war concerns ease by September as we believe is likely, it could prove to be a catalyst of a surprisingly strong 2nd half of 2018.

(OVER)

Quarterly Model Portfolio Update (Continued)

Current Portfolio Stance & Adjustments

When assets class returns diverge to the degree that we've seen so far this year, it creates opportunity for patient and disciplined investment rebalancing. In April, we completed semi-annual **Core Model Portfolio** rebalancing to take advantage of some of the disparate asset class returns we've observed in 2018. So far, the results have been encouraging. During Q2 we added to the following positions (return since addition on April, 11th, 2018):

- **Fidelity MSCI Technology Sector Index, (FTEC, +11.1%)**
- **iShares Core MSCI EAFE Index, (IEFA, -2.45%)**
- **Vanguard Real Estate, (VNQ, +10.65%)**
- **Fidelity Inflation-Protected Bond Index, (FSIYX, +1.23%)**

While performance attribution from our second quarter rebalancing has been generally positive, most **Core Model Portfolios** produced total returns hovering near a flatline of between -0.20% and +0.50% year-to-date. In market environments where some major asset classes are flourishing (growth stocks, small caps) and others (bonds of most types, International and Emerging Markets stock) are down, these types of results are typical for a well-diversified portfolio.

Regular readers will likely anticipate our advice going forward: have patience with a carefully constructed portfolio approach, remain diversified, and exercise discipline. We observed extended periods of sideways performance during much of 2014 and 2015 and were then rewarded with substantial gains in the ensuing two years. Hence, the adage "Time *in* the market instead of *timing* the market.

NorthLanding Financial Partners, LLC
We are committed to empowering our clients to discover and direct action toward their most important financial goals. Our advisors have over 100 years of combined experience and advanced credentials in counseling clients to develop and implement strategies to meet their personal and family financial objectives.

We welcome your feedback!

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While much has been made of the length of the current bull market (it surpassed an impressive 9-year anniversary in March) we remind our clients and other readers that bull markets simply don't die of old age or turn into pumpkins when the market's internal clock strikes midnight. Instead they tend to die of excessive valuations and investor euphoria. Given the current period of consolidation and relatively mundane equity valuations (the S&P 500 currently trades at a price near 16 times next year's earnings) there is limited evidence of such conditions.

We acknowledge there are risks present to a positive outlook: Yes, an 18th century style trade war is being invited into a 21st century world of complex global supply chains. Excessive inflation and rising interest rates both have the possibility of slowing the U.S. and world economic growth. However, on balance, U.S financial market conditions and largely those we observe globally remain supportive of positive future returns.

As always, we encourage you to contact your advisor for information regarding your current portfolio holdings, performance or this most recent update.

NorthLanding Financial Partners, Investment Direction Committee