FINITY GROUP, LLC

4380 SW Macadam Avenue •Suite 245 • Portland, OR 97239

October 2019

Third Quarter Market Update

The third quarter was somewhat of a mixed bag as the S&P 500 continued to rebound and the Barclays US Aggregate bond index maintained its momentum, finishing the period up 1.7% and 2.2%, respectively. Other equity asset classes, including small companies, international and emerging markets, all had slight declines of -2.4%, -1% and -4.1%, respectively.

Mixed Messages

The third quarter of 2019 picked up right where the second quarter ended with a plethora of attention-grabbing headlines about the always soon-to-be, but never-actually-here, recession. Admittedly, it would be naïve to think that this bull market cycle can last forever, but it is extremely difficult to "call" when a recession will begin and/or end. Even at this later (we think) stage in the market cycle, there are reasons to be optimistic about growth. Unemployment is still near record lows and wages are growing, which is a good sign, given that approximately 2/3rds of our GDP is attributed to consumer strength. From a business standpoint, interest rates declined in the period which is helpful for businesses looking to invest and expand. While there are plenty of reasons to be optimistic, Market Bears would point to the ongoing trade war, the slowdown in Europe and a strong dollar as all reasons to be concerned about the domestic economy's ability to continue to expand.

Whether the trade war causes a pullback in the markets or the strong consumer continues to carry us forward, it is very important to remain focused on your investment goals. Volatility is a normal part of investing as markets try to continually price in all of the available information. For long term investors, it is important not to let this volatility cause an emotional reaction. For most of us, the author included, it is not fun to see a negative rate of return in your account and the natural reaction is to try and limit further declines. This emotional reaction, however, can be one of the worst courses of action to take. In their "Guide to Retirement", JP Morgan found that from January 4th, 1999 to December 31st, 2018, if you stayed invested in the S&P500 Total Return index you would have realized an annualized return of 5.62%. If, however, you tried to time when a market pullback would come and were off slightly, missing a fraction of the rebound, the consequences were drastic. If you missed just the 10 best days of market performance during that time period, your average annual return drops from 5.62% to 2.01%. That is over 50% of the performance gone!

International developed and emerging markets were laggards in globally diversified portfolios during the period. While valuations remain below their historical averages, concerns over a recession in Europe are arguably higher than they are domestically. While it has taken somewhat of a back seat to the US/China trade war, the Brexit issue remains a concern. Furthermore, the regions Manufacturing PMI readings have been below 50, indicating the sector has been decelerating. Compounding matters, Germany the Eurozone's largest economy, has also been hampered by a soft auto market, which is a large part of their economy. Despite these challenges, we would caution investors from abandoning their international investments as it is just as difficult to time when to be, or not be, invested in overseas markets as it is domestically. While the performance in these asset classes has been disappointing as of late, in the mid 2000's, these asset classes were some of the best performing. Emerging markets were either the best or the second-best performing asset class from 2003 -2007 when compared to other asset classes, while developed markets routinely only lagged emerging markets and real estate in all but one of the same years.

Speculation that interest rates would decline further came to fruition during the period as the Federal Reserve reduced the benchmark interest rate by .25%. This was the second reduction in 2019 and fixed income markets responded positively. The Barclays US Aggregate bond index increased 8.5% through the first three quarters of the year and has doubled the performance of all the other broader asset classes over the last twelve months. Where rates go from here will likely have a large impact on the performance of this asset class. While it is uncommon for fixed income to be the best performing asset class, especially during an economic expansion, we would use this performance to highlight the fact that markets can be unpredictable and the importance of diversification to have exposure to this top performer.

While we would argue it is difficult to time or predict movements like what we saw in the fixed income markets with precision, we can be prepared with how to deal with them. If your goals and time horizons have not changed, we would argue that these are examples where rebalancing may be warranted; especially if an asset's movement has caused portfolio allocations to deviate outside of targeted ranges.

We are always ready to assist you and answer any questions regarding this newsletter or any other financial matter that may come up. If any changes to your situation have occurred, please contact us at your convenience.

Index	Closing Price: 9/30/2019	Closing Price: 6/30/2019	Q3 2019 Return	2019 YTD Return	Trailing 12 Months
S&P 500	2,976.74	2,941.76	1.70%	20.55%	4.25%
S&P 500 Value	1,176.92	1,151.86	2.83%	20.01%	5.56%
S&P 500 Growth	1,809.42	1,803.32	0.72%	21.06%	3.25%
Russell 2000	3,785.97	3,893.33	-2.40%	14.18%	-8.89%
Russell 2000 Value	6,495.91	6,569.27	-0.57%	12.82%	-8.24%
Russell 2000 Growth	5,939.74	6,210.09	-4.17%	15.34%	-9.63%
MSCI EAFE	1,889.36	1,922.30	-1.00%	13.35%	-0.82%
MSCI EM	1,001.00	1,054.86	-4.11%	6.23%	-1.63%
BBgBarc US Agg Bond	2,221.00	2,171.71	2.27%	8.52%	10.30%

Written by Finity Group