FINITY GROUP, LLC

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

October 2018

Third Quarter Market Update

Despite a noisy back drop, domestic markets, both large and small companies, continued their upward momentum in the third quarter posting 7.7% return on the S&P 500 and 3.5% on the Russell 2000. International markets were able to buck the trend of the first half of the year and ended the period up slightly at 1.4% but remain down on the year. Emerging markets remained under pressure and slid an additional 1% in the period. Fixed income primarily stayed flat during the period, but with the rising interest rate environment, the traditionally more stable asset class may warrant additional scrutiny from investors.

Bring the Noise

Throughout the quarter, trade war headlines remained omni present, but that did not slow domestic equity markets, which steadily improved during the period. While the trade pacts being negotiated makes for good headline material, the underlying fundamentals of the S&P 500 companies appears to remain strong. According to Factset, analysts are expecting the S&P 500 companies to report near 20% year over year earnings growth. While this is impressive, it is slightly below the last two quarters. Furthermore, 74 companies have issued negative guidance regarding their future earnings. This is important to note, as stock prices will react, and investors will be rewarded, more for expectations of future growth relative to past performance. We don't think that the negative guidance is necessarily a bad thing in of itself, but more of a resetting of expectations given the significant growth the markets have produced. With this bull market cycle the longest on record, a slow down in the growth or some side ways movement would likely be healthy. If the markets were to decline, we would remind investors that over the last 38 years the S&P 500 has declined on average 13.8% each year. Despite this average decline, the index has ended in positive territory in 29 of these years. This helpful statistic from JP Morgan highlights the volatility that one could consider normal in the course of investing and the importance of staying invested if there is a slowdown or even a decline in the markets!

International developed and emerging markets have been performance detractors in globally diversified portfolios during the year. Developed markets are down for the year, but did see some mild improvement, +1.42% in the period, while emerging markets continued to struggle declining -.95% during the quarter. As expected, trade tensions continued to have a negative impact on the assets classes while emerging markets were particularly hurt by a strong US Dollar. Hopefully, trade tensions will ease, and these asset classes will be able to appreciate going forward.

Fixed income continued to struggle during the quarter in the rising interest rate environment. Year to date, the Federal Reserve has raised the target interest rate three times in quarter point increments. It is largely expected that if the underlying economy stays strong then they will continue this trajectory with one more rate hike in 2018. Given that the consensus is for S&P 500 companies to continue to report positive earnings, it is likely that the economy will stay stable providing the Federal Reserve the ability to raise interest rates back to more normal levels. This will have consequences on the other asset classes as income can once again be achieved at a reasonable level relative to more volatile equities.

As we approach the end of the year, there are many aspects of the global markets that investors are focused on and trying to decipher what is important and what is just noise: Will companies be able to continue to report such strong earnings growth? If the economy remains strong, will the Federal Reserve continue to raise the target interest rate? If rates keep going up how will that impact the opportunity cost of investing in stocks vs bonds? What will a higher interest rate environment do to the real estate market? Will the dollar remain strong? Will international equities stabilize, and will they be able to recover with or without a weakening of the Dollar? These are just some of the questions investors will be paying attention too. While we don't pretend to have the answer to any of them, we would also argue that no one does. Instead of trying to determine finite responses to these questions, successful investors will instead monitor these developments and how asset classes are performing in relation to each other and only change their long-term strategy if their personal goals, risk tolerances and time horizons have changed. As these situations/questions evolve it is important to expect the volatility and rebalance back to the investment strategy that their personal financial plan calls for.

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: 9/28/2018	Closing Price: 6/29/2018	Q3 2018 Return	2018 YTD Return
S&P 500	2,913.98	2,718.37	7.71%	10.56%
S&P 500 Value	1,144.50	1,088.21	5.86%	3.51%
S&P 500 Growth	1,779.52	1,633.76	9.28%	17.24%
Russell 2000	4,216.41	4,083.44	3.58%	11.51%
Russell 2000 Value	7,238.67	7,157.76	1.60%	7.14%
Russell 2000 Growth	6,621.54	6,284.85	5.52%	15.76%
MSCI EAFE	1,973.60	1,958.64	1.42%	-0.98%
MSCI EM	1,047.91	1,069.52	-0.95%	-7.39%
BBgBarc US Agg Bond	2,013.67	2,013.28	0.02%	-1.60%

Written by Finity Group

Index & other data provided by Bloomberg.com, MSCI.com, S&P Dow Jones, Morningstar, Factset, & JP Morgan. You cannot invest directly in an index. This information should not be construed as investment advice regarding specific ETF's, funds or stocks in particular, nor should it be deemed as a recommendation to purchase or sell a security. Past performance is not a guarantee of future investment results. This report is written solely for clients of Finity Group LLC, and may not be reproduced or disseminated without the express written permission of Finity Group LLC. Tracking #240591 DOFU 20181022