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## MARKET COMMENTARY

Stock returns were mixed for the third quarter. The large cap stocks in the S&P 500 reached new highs and returned 1.70% this quarter which brought their year-to-date return up to 20.55%. However, small cap stocks in the Russell 2000 were down -2.4% for the quarter bringing their year-to-date return to 14.18%. International stocks were also down for the quarter; developed markets in the MSCI EAFE lost -1.07% and emerging market stocks fared even worse losing -4.25%. This brought their year-to-date returns to 12.80% and 5.90% respectively. Bond yields continued to decline resulting in the Barclays U.S. Aggregate Bond Index posting a return of 2.27% for the third quarter and 8.52% so far this year.

JPMorgan strategist David Kelly believes that GDP growth has slowed to its long-term expected 2% rate. Second quarter GDP growth was finalized at 2% and he expects third quarter will be closer to 1%. Growth may have slowed in response to U.S. trade tensions with China, and the weakening of European economies. The media chatter about recession in the US has also increased which can weigh heavily on corporate spending and hiring plans as uncertainty hinders capital outlays. Although he doesn't see a reacceleration in GDP growth, Kelly doesn't believe the US will actually see a recession this year because interest rates are low, consumer confidence is solid, and the cyclical sectors are subdued meaning we are not in a booming environment that could go bust.

Corporate earnings are expected to be lower for the third quarter. This will be the first decline in quarterly earnings since third quarter 2016. Zacks is currently projecting third quarter earnings to be down -4.8% from a year ago. The first half of the year had earnings growth of less than 1%. The full year may show negative growth but Zack's current estimates are for almost 10% earnings growth in 2020 and 2021.

Unemployment is low however you measure it—the overall number of 3.5% as well as various subsets. Brian Wesbury, Chief Economist at First Trust, notes that the unemployment rate for Blacks and Hispanics are also at record lows at 5.5% and 3.9% respectively. Even workers (age 25 and up) who didn't graduate high school have an unemployment rate of less than 5%. Wages are also growing as average hourly earnings were up 2.9% in September from a year ago. Wages for lower paid workers were up even higher at 3.5%.

Speaker of the House Nancy Pelosi announced that the House of Representatives would move forward with an official impeachment effort on the premise that President Trump withheld aid to Ukraine while pressing the country to investigate presidential candidate Joe Biden. This move is coming after what has been nearly a 3 year debate among House Democrats. Historically, when an impeachment process is introduced, markets tend to decline. However, when the sitting President was not convicted, markets moved higher. It will be important to see how Congress proceeds in the coming weeks. David Kelly also reminds investors that they should not let how they feel about politics determine how they invest.

Looking internationally, the United Kingdom is still projected to leave the European Union on October 31st even though a deal has not been reached. Prime Minister Boris Johnson could request an extension which would push the exit deadline to January 31st, 2020. However, the prime minister has been very adamant about leaving by the end of October with or without a deal. Many worry that a no-deal Brexit could damage the U.K. economy by creating port delays, traffic bottlenecks, and disruptions of supply routes. Analysts will be watching to see if there is a spillover effect to the European Union, US and other global markets.

The Federal Reserve cut its benchmark interest rate by a quarter percentage point in September in an effort to cushion the U.S. economy against a global economic slowdown caused by the U.S.-China trade war. The Fed's current benchmark Fed Funds rate is now sitting in the 1.75-2.00% range. Federal Reserve Chairman Jerome Powell has left the door open to additional rate cuts in the future despite central-bank officials being split on this idea. Markets have been looking to the Fed for more concrete promises on rate cuts. Many analysts believe we

### 2019 BENCHMARK RATES OF RETURN

| INDEX | Third QUARTER | YTD |
|---|---|---|
| S&P 500 | 1.70% | 20.55% |
| DJIA | 1.46% | 17.08% |
| NASDAQ | -0.57% | 20.63% |
| Russell 2000 | -2.40% | 14.18% |
| International | -1.07% | 12.80% |
| Fixed Income | 2.27% | 8.52% |

***We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.***



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will see one additional cut either in October or December. At the end of September, the U.S. 10-year Treasury had a yield of 1.68% while the yield curve continued to remain relatively flat.

We are entering the fourth quarter which has historically been a positive period for stocks. Even so, with equity indices near their highs and political uncertainty abundant, it is an attractive time to re-evaluate the risk in portfolios and rebalance if necessary. Although most economists do not forecast a recession in the near future, growth is more muted than recent periods and it is a good time to evaluate portfolio risk. Please talk to your advisor if you have questions about the risks in your investments.

## FINANCIAL PLANNING

### Cybersecurity

Over the last couple of decades, the world has become interconnected in ways most would have never imagined. Thanks to the internet, we are now able to do everything from communicating and shopping to banking and media streaming, all from devices that fit in our pockets. However, this interconnectedness also leaves individuals vulnerable for possible cyber-related attacks. Common cyber-related crimes include identity theft, fraud, and scams. This can include wrongfully obtaining and using another person's personal data to open fraudulent accounts, charging existing credit card accounts, withdrawing funds from deposit accounts, or obtaining new loans. Any of these problems could not only include large out-of-pocket losses, but could also have negative implications on one's credit history. Many of these scams or acts of fraud typically start with an e-mail, a text, or a phone message that appears to be coming from a legitimate, trustworthy organization and may simply ask individuals to verify or update some personal information.

There are steps that anyone can use to help protect themselves from a cyber-security threat. The most important way is to carefully protect personal information. Never share personal information over the phone, through the mail, or over the internet unless you initiated contact or personally know the person you are dealing with. Be suspicious if someone contacts you unexpectedly asking for personal information no matter how professional or legitimate it may seem. Be especially wary of fraudulent e-mails or websites that have typos or other obvious mistakes. Make sure you choose PINs and passwords that are difficult to guess, and avoid easily identifiable information such as your mother's maiden name, birthdays, or social security number.

It is also very important to be careful about where and how you conduct financial transactions. Never use an unsecured Wi-Fi network as others may be able to access the information you are transmitting or viewing. Be distrustful of incoming e-mails or text messages that ask you to click on a link. This link may install malware onto your device which could allow thieves to spy or even steal your personal information. Make sure you check your security settings on all social network sites and block out anyone who you do not want to view your profile. Additionally, it is important to research any apps before downloading. The name or design of the app is no guarantee that it is legitimate or trustworthy.

Lastly, beware of any disaster-related financial scams or any offers that require you to act quickly. Scammers have claimed to be from a charitable organization but instead took advantage of individuals who had just been impacted by a catastrophic event. Other common scams include the IRS instructing you to get money orders/gift cards/debit cards, a travelling friend who needs money wired, or a grandchild in jail.

Here at Cambridge Advisors, we take steps to ensure that your personal information is well protected. This includes partnering with safe and reputable organizations, utilizing advanced cybersecurity software, and being skeptical of any solicitors. If you receive any suspicious information claiming to be from Cambridge Advisors, please contact us immediately.

## QUESTION: *How does diversification lower my risk?*

ANSWER: Diversification in a financial setting is defined as an allocation of investments across various financial instruments that move independently of one another. Some investments may react to an economic or market event by moving in the same direction but not in the same magnitude. Other investments may move in the opposite direction. The mathematical laws of correlation are what allow diversification to reduce the risk in an individual's portfolio. A diversified allocation will help you minimize large losses because an event that negatively affects stocks in your account could positively affect bonds or commodities. In this strategy, it is important to remember that a well diversified portfolio could have both winners and losers at any point in time. Therefore, an investment that goes down one quarter is not necessarily one that should be sold from the portfolio because it could be the investment that protects your account the next quarter.

## CAMBRIDGE ADVISORS NEWS

We have been helping clients gain access to the new Cambridge advisors client portal. If you do not already have access, please contact your advisor so we can get you set up. In the portal, clients are able to view their balances and security holdings in total and by account. In addition, quarterly reports are available online. If you would like to stop receiving paper copies of your report from Cambridge Advisors, let us know because they are now available online. We'll be adding additional capabilities over time.

## SCHWAB NEWS

Schwab recently announced that beginning October 7th, they are eliminating commissions on most stock and ETF trades! This doesn't apply to the transaction fee on some mutual funds but is a great step in further reducing the costs of trading.