

KACHKOVSKY & FISHER
REGISTERED INVESTMENT ADVISOR

Fall 2018

With breast cancer being the most common type of cancer in women worldwide, chances are you've known someone who's battled this awful disease. During Breast Cancer Awareness Month, observed in October by countries around the world, we can each help raise awareness and learn about preventative measures to protect our health and that of our loved ones. Breast Cancer Awareness Month – founded in 1985 by the American Cancer Society and AstraZeneca, a manufacturer of several anti-breast cancer drugs – is meant to help destigmatize breast cancer, promote proper breast health and raise funds for research. To be a part of the effort, you can a) donate to the National Breast Cancer Foundation, where over 80% of its funds go to provide free mammograms and breast health education, b) break a sweat and join in the annual Making Strides Against Breast Cancer walk, hosted by the American Cancer Society. This three-to-five-mile walk (it's noncompetitive, so there's no pressure to have athletic chops) raises money for research, and/or c) schedule a mammogram and encourage those you love to get one. Men and women can be susceptible to this disease, and it's important for those over 40 or with a family history to take advantage of preventative measures. We wish you and yours good health and prosperity this month and always.

Let's take a look at the numbers.

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|------------------------------------|-----------------|
| | (As of 9/30/18) |
| Dow Jones Industrials | + 7.04 % |
| S&P 500 Index | + 8.99 % |
| NASDAQ Composite | + 16.56% |
| MSCI EAFE Index | - 3.76% |
| Major Bond Indexes | (As of 9/30/18) |
| Lipper U.S. Government | - 1.88% |
| Lipper Short-term Investment Grade | + 0.60 % |
| Lipper Corporate A-Rated | - 3.64% |
| Major Mutual Funds Indexes | (As of 9/30/18) |
| Lipper Large-Cap Core | + 8.22 % |
| Lipper Mid-Cap Core Index | + 4.06 % |
| Lipper Small-Cap Core Index | + 6.02 % |
| Lipper International Markets Index | - 4.47 % |

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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FINANCIAL AND INVESTMENT PLANNING

“Coming together is a beginning; keeping together is progress; working together is success.”
— Henry Ford

The third quarter of this year ended with the president signing an \$853 billion bill to fund the military and domestic programs, averting a partial government shutdown ahead of the midterms and postponing a potential shutdown. Domestic equities were a mixed bag toward the end of September, but did quite well over the quarter. The Dow Jones Industrial Average is up 9% for the third quarter; the broad-market S&P 500 posted its best quarter in almost five years, up 7.2%; and the NASDAQ is up 7.1%.

Headline news coming out of Washington, D.C., has given investors quite a few things to think about - midterm elections, the Mueller investigation, China trade tariffs and other unknowns. Yet some investors have compartmentalized the fluidity of D.C.-related risk and have focused more on the strong underlying fundamentals of the economy and earnings, according to Ed Mills, Raymond James Washington policy analyst. “We have long said that, in D.C., nothing is ever as bad as you fear nor as good as you hope,” Mills commented. “We are concerned that the current compartmentalization is underpricing this risk.”

According to Raymond James Chief Economist Scott J. Brown, the U.S. economy remains in sound shape, with temperately robust growth, reasonable inflation and a tightening job market. Brown added that, “The current economic expansion, which is the second longest on record, is widely expected to continue into 2019, but the pace of growth is likely to moderate, reflecting job market constraints, tighter (or less accommodative) monetary policy, and a smaller impact from fiscal stimulus (relative to the first half of 2018).” As anticipated, on September 26 the Federal Open Market Committee raised fed funds rate (short-term interest rate) to the target range of 2% to 2.25%. As a result, the federal budget deficit is expected to be substantially higher, which is anticipated to put mounting pressure on bond yields. Despite the president’s vocal displeasure of recent increases, another rate increase is likely before year-end. Fed officials raised their GDP growth forecast for 2019 and 2020 with the expectation of monetary policy becoming more restrictive.

In a recent Investment Strategy Committee meeting, Scott J. Brown, Ph.D., Raymond James Chief Economist, explained, “Trade policy remains a risk to the economic outlook. To date, the impact has been small, but will worsen as trade conflicts escalate. However, even in the worst case scenario, increased tariffs and retaliatory measures shouldn’t be enough, by themselves, to push the economy into a recession.” Additional weakening in trade affairs endures as a looming danger that has a tendency to have important long-standing consequences. Brown added, “Fiscal stimulus (tax cuts and government spending) has been larger than expected. The federal budget deficit has deteriorated much more than anticipated in fiscal year 2018 and we’re now looking at a deficit of more than \$1 trillion in fiscal year 2019. That means support for the economy in the short run, but a bigger problem in the long run.”

On the equity front, despite major U.S. large cap market indexes sporting solid year-to-date returns, a look under the hood reveals a different picture. A deeper analysis points to relative strength in Information Technology, Consumer Discretionary and Health Care sectors, with weakness in Communication Services, Industrials, Consumer Staples, Materials, Energy, Financials, Utilities, and Real Estate. Andrew Adams, Senior Research Associate at Raymond James, reflected, “As technology-oriented companies continue to innovate and disrupt established industries, more and more of the disrupted companies have turned into value traps that underperform for years. While overall conditions remain supportive of a secular bull market, it is worth noting that the tech-heavy NASDAQ, which has routinely led during this bull market, may have limited upside in the near term.”

Following the struggles of August, September brought some serenity to international markets. Global equities behaved well, even emerging markets, which have all but fallen off the proverbial cliff since trade tensions began. Richard Turnill of Blackrock writes, “This year’s EM troubles stem from a potent cocktail of negatives. Catalysts include country-specific factors (Turkey’s credit-fueled growth running out of steam; Argentina’s policy missteps); worsening trade tensions; a crowded EM election calendar; and moderately tighter global financial conditions. Higher U.S. interest rates are adding to the EM stress by creating competition for capital and leading investors to reset their return expectations for riskier assets, especially EM

assets and equities. The biggest casualties: currencies of EM economies with the largest current account deficits and highest external debt burdens. Countries with surpluses, such as South Korea and Thailand, have largely been spared a currency crunch.

“We see this year’s EM selloff more as a series of idiosyncratic accidents masking stronger EM fundamentals rather than a canary in the coalmine for global markets. EM economies are holding up, and recessions in trouble spots like Turkey and Argentina should have limited impact. Our research shows developed markets are the key drivers of the global expansion and EMs’ fortunes, with China the linchpin for transmitting growth to EM broadly. Our BlackRock Growth GPS points to steady economic activity in China. EM fundamentals are generally robust, and economic strength is starting to translate into sustained strong EM earnings growth for the first time in a decade. We may also be near a peak in country-specific risks. With much of the steam let out of valuations, a robust growth backdrop, and potential for the Fed to start to slow its balance sheet wind-down next year, we see room for a further rebound. Risks include escalating trade frictions, hefty portfolio outflows, and a hawkish Fed pushing up global rates and the U.S. dollar.”

In other international news, the European Central Bank confirmed its previously circulated timetable to stop the expansion of its balance sheet at the end of this year. Chris Bailey, European Strategist, Raymond James Euro equities, explains, “The euro zone still looks set to raise interest rates very modestly at some point next year. In Europe, the Brexit debate ran into bumps in the road, although there is still a possibility of an October/November deal. The transitional period will likely be lengthy, which could dampen some of the negative economic impact.”

Just this week, Jaguar Land Rover, Britain's biggest carmaker announced that it will close its Solihull (a large town in West Midlands of England) plant for two weeks in October after reporting a near 50 percent drop in sales to China as import duties and a trade war with the United States hurt demand. China's automobile sales have been falling in recent months, with a slowing economy and trade frictions making consumers cautious about spending. Jaguar Land Rover, which built nearly one in three of Britain's 1.67 million cars in 2017, said last month that another of its factories, Castle Bromwich, will go down to a three-day week from October until the beginning of December. It has also warned about the impact of any Brexit-related loss of free and unfettered trade with the European Union. – Reuters

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- The Dow Jones Industrial Average (DJIA), commonly known as “The Dow”, is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material accurate or complete.
- The S&P 500 is an unmanaged index of 500 widely held stocks that’s generally considered representative of the U.S. stock market.
- The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market and includes over 3,000 companies.

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PERSONAL

Days after turning six years old, Macy and Kora (7) set out to explore the Indian Peaks Wilderness with mom and dad. Before their feet hit the trail, the girls saw their first moose. Bullwinkle and two of his closest friends were eating breakfast. Adult males can be over six feet tall at the shoulder and weigh 1,500 lbs. It was hard to tell who was more excited about seeing these beautiful animals. The two siblings made sure their stuffies (stuffed animals) and snacks were inside their backpacks before the adventure began. Angie led the hike to Lake Isabelle, followed by the dancing girls, with Kris bringing up the rear. The wildflowers in early July were incredible! As the family reached the destination at 10,945 feet, Kora and Macy were excited to see snow and anxious to eat their Goldfish crackers. Lake Isabelle is nestled below a few dramatic looking 13,000 foot mountains.



“I’m not going.” She was determined to stay inside the car. Kora had been excited about doing her first triathlon since the day she told her parents she wanted to do one. Kora was even excited when she got into the car that morning. However, when she arrived at the event, anxiety showed up in a big way. The start of the race was only 20 minutes away. Angie and Kris told Kora to take her time and not to come out of the car until she was ready. About 10 minutes later the brave girl opened the car door and exclaimed, “I’m ready, Dad!” Mom ran with Kora to the start of the swim, while dad took Kora’s bike to the bike transition. When she got out of the water, Kris ran with Kora to the bike station. Soaking wet, she put on her helmet and was off! After the bike, the blue eyed girl bolted around the lake. Pacing herself proved to be a challenge during her first lap. The 2nd lap around the lake, she found a pace that she could maintain. As she ran through the finish line, Macy, mom and dad were waiting with open arms. Kora was ecstatic and said she can’t wait to do it again next year!

In September, Angie and Kris took a few days off to celebrate their 11th anniversary in Crested Butte, Colorado. On the way, the couple decided to hike Mt. Shavano. It was not a technical climb, but 4,600 feet of climbing at elevation isn’t exactly a walk in the park. Due to it being late in the season, the couple had the mountain all to themselves on the ascent. At the summit of 14,229 feet, they ate their peanut butter and jelly sandwiches, took in the awe inspiring views of the great Rocky Mountains and agreed this was a perfect way to start their anniversary weekend. The early days of Crested Butte were that of a quaint mining town in the

1800s. Today, it's known for its beauty and outdoor recreational activities, such as epic mountain biking (more than 750 miles of trails to choose from), hiking in alpine and aspen forests, fishing in pristine rivers and streams, camping and horseback riding. Angie and Kris are new to mountain biking and don't have much or any technical ability, but they love it. The first day was spent climbing and descending the rolling trails through aspen groves at their peak color. The following morning they decided to hike two of the mountain passes between Crested Butte and Aspen – West Maroon Pass and Frigid Air Pass. The 12 mile hike lived up to its reputation with stunning views of the high peaks of the Elk Mountains. Angie and Kris can't wait to spend more time in Crested Butte!

Not surprisingly, with miles of beautiful beaches, SeaWorld, Legoland, and arguably one of the best zoos in the world, San Diego is a major tourist destination year round. And, with school on break, summer is especially busy with visitors from across the globe. The Kachkovsky household was a flurry of activity as friends and family came to visit, relax on the beach, and soak up the California sun. This summer, like in many parts of the country, was particularly warm with temperatures uncharacteristically hovering in the 90s at the coast. Water temperatures lingered in the 70's for weeks and hordes of families invaded the beaches from morning till night. One of Ava's and Elle's favorite summer activities was to spend the evening at the Zoo riding the Skyfari, munching on frozen lemonade and watching the street parade make its way through the park. Kids are so fun at this age – filled with unbridled curiosity and endless energy. Through the YMCA summer camp series, Ava really improved in gymnastics. From back bends to bridges, walkovers and handsprings, Elle tries to mimic her big sister and appears to have a promising future in breakdancing. However, her biggest asset is her heart. Elle may be the sweetest kid in the world – always sharing, giving hugs and kisses and apologizing for sister when Ava gets in trouble.

In August, Garry and Ava spent the weekend camping on Catalina Island with the YMCA Adventure Guides and Princesses program. Two Harbors was the setting for a weekend full of comradery, hiking, swimming and sea kayaking. Despite being a bit apprehensive at first in the wobbly sea vessel, Ava quickly learned how to maneuver the kayak and was off chauffeuring her friends around the harbor. Perhaps a surprising highlight of the weekend was the hike to and a lecture at the USC Wrigley Institute for Environmental Studies - an environmental research and education facility operated by the University of Southern California. Dad's and their kids had lots of fun learning about and playing with sea life - urchin, starfish and sea cucumber.

In September, Ava embarked on first grade and is working hard on her math and reading skills. Emily celebrated her 40th Birthday. It is no surprise that she received lots of congratulations and well wishes. Emily is sweet, honest, caring and thoughtful and everything a parent, a child and spouse would want. Whatever milestone you may be celebrating in the weeks and months ahead, we wish you and your families only the best today and forever.

Thank you for your trust, confidence and friendship.

“Positive thinking will let you do everything better than negative thinking will.”

- Zig Ziglar



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