RIVERPLACE
· CAPITAL ·

1301 Riverplace Boulevard, Suite 2130
Jacksonville, Florida 32207
904-346-3460

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Join Us
NOVEMBER 14TH
for our
20th Anniversary Celebration

the Lonely Bull

October 2018

*a market **perspective** by Riverplace Capital*

Number 81

THIRD QUARTER

Interesting times; a daily litany of alarming and potentially detracting news flow gives investors unusual challenges. Fortunately, most investors have remained focused on economic fundamentals that continue to be excellent. ***Revenues and earnings reports from many companies show astounding growth; on average over 10% for revenues and 20% for earnings.*** Very few times in history have we seen this pace of increase.

As a result, company valuations have increased. The increases have not been as great as the earnings growth for one important reason, much of this good news was anticipated in stock market returns last year. However, the gains are good. (See the next section for our Forecast for the rest of the year.)

Within the market, there has been a rotation out of some high growth stocks trading at very high valuations into ones considered to be offering greater value. Simply, the shine has come off the FANG momentum approach. The valuation and performance gap between growth and value stocks had reached historic levels; probably unsustainable.

International markets have also badly lagged the performance of our U.S. one. This difference also approached historic measures and this is also probably unsustainable. Some of the worst markets are emerging ones. China, Turkey, Russia, Argentina, and Brazil come to mind. Some of this divergence is because the U.S. economy is doing so well in comparison, but also the prospect of expanding tariffs and a trade war contribute.

Europe's markets, which suffered earlier, may be at the early stages of bottoming and setting up for rebounds; time will tell. There are, however, good signs coming out of Germany, Europe's lead economy. Spain, France, and even Italy are improving. Eastern Europe has been doing pretty well all along. Countries there have benefited from the migration of industry to their lower costs.

Interest rates have remained in a tight trading range. Although the Federal Reserve is expected to continue to raise short term rates, the response of longer-term ones is muted. As a result, the difference in rates among varying maturities has narrowed. Usually, long term bonds earn at a higher rate than shorter ones. This difference is now quite small. This is referred to as a flattening yield curve. What this possibly means is discussed in the Forecast section under *"Fixed Income."*

"Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble."

- Warren Buffett

Riverplace Capital proudly celebrates 20 years of business October 1st. Please join us to commemorate this milestone. Festivities will be held on Wednesday, November 14, 2018 5:30-7:30 p.m. at the Museum of Contemporary Art, Jacksonville.

RSVP to Karen Bower at 904-346-3460 or kbower@riverplacecapital.com

TALK WITH US

As you probably noticed by now, we are celebrating 20 years in the business of serving our clients this fall. Although we had been working on establishing Riverplace Capital Management Inc. months in advance, we received our official SEC registration October 1, 1998.

It has been quite a journey. We and our clients have weathered considerable volatility; two major market crashes, the dot.com boom/bust and then the financial crash and the great recession. We take lessons from all our experiences, but these two were important.

Through all of this we kept as our constant guide the commitment to enduring investment principals and to our process. Processes always need to evolve, but there are enduring methodologies that have been proven over time. Among those are to invest in good businesses, focus on quality, concentrate on the long-term, and be willing to go against the consensus. Additional ones are to pay close attention to valuation, diversify, and have realistic expectations.

We also employ a portfolio construction methodology, which endures and has proven to provide opportunity for excellent returns with reasonable risks. We continue to tweak all processes to keep current and enhance returns. We know we do not know everything. ***We approach the science and art of investing with humility and a willingness to learn.***

Riverplace Capital has enhanced its future by the addition of excellent new professionals that are contributing and building for years to come. In addition to expertise, they contribute youth and energy. It is a delight to work with them. We will be adding more in time. We have a good mix of experience and enthusiasm. Knowledge and experience are being imparted under guidance.

We would be remiss to not extend the biggest thank you to our clients and partners. Nothing can happen without you; thank you, thank you, thank you. We simply can't say it enough. We are also proud of how we have been able to help you and optimistically look forward the future. If you are not working with us, ***Talk with Us.***

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FORECAST

ECONOMY

Economic growth continues to surprise. The current quarter's growth rate is likely to be in the high 3% or low 4% range. This follows 4.2% for the second quarter. The year should come in solidly in the 3% range. This is a significant improvement over the 2 – 2.5% rate of the past several years. There is no sign of a recession. However, macro, geo-political shocks can affect progress. So far, tariffs and the prospect of a trade war with China have had very little effect.

A revised NAFTA, and potential for a free trade pact with Europe are potential boosts. ***At least, they are confidence builders in the sustainability of our economic expansion.*** Ever since the economy began recovering from the financial crisis of 2007 – 2009 and the Great Recession, many have feared a return to it. However, GDP growth has now accelerated, not declined. We expect at least a couple more years of good growth.

EQUITIES

Volatility returned. In February we had a significant sell-off, then a subsequent recovery. Within the stock market, sectors have come in and out of favor with dramatic intensity. Some individual securities have also had outsized daily moves. These are more of a reflection of market dynamics and not always a signal about prospects.

Investors still have the financial crash and the great recession in mind. Some are quick to sell at the faintest negative signs. The benefit of this is that the tendency to go to extreme optimism after such a long bull market is held in check. Corrections also check ebullience and the consequential distortions.

When investors and economic participants get complacent and assume good times are durable, they often take too much risk. Debt levels get extended and business decisions may imbed too much hope rather than sober analysis. Periodic reminders of reality are helpful and extend solid growth.

FIXED INCOME

Interest rates have been stuck in a trading range. Only short maturities have increased in yield. We expect longer-term rates to breakout to new highs, we just do not know when. **Longer-term rates are higher in the U.S. than in many other developed economies.** Our rates continue to attract international buyers, helping to keep our rates lower than they otherwise would be. This will not persist indefinitely. Higher interest rates are coming.

INVESTMENT STRATEGY

EQUITIES

Our strategies revolve around the principal of Growth At A Reasonable Price (GARP). When expectations and price get out of line we respond. When too low, we prefer to be buyers; when too high we reduce positions or sell all. We are always looking for new opportunities. Sometimes markets over-react to news, and sometimes entire categories of stocks are simply out of favor.

Opportunism to unwarranted market action has helped us add to returns this year and enabled us to make some excellent new acquisitions; so far so good. We see prices in some of the most popular sectors to be very high. We are looking elsewhere.

FIXED INCOME

Our strategy here is to stay relatively short in maturity commitments. Rates are now better and add to portfolio returns but are still nothing to get excited about. We will continue to roll maturing instruments into new ones staying within 5 years. With a very flat yield curve, there is no reason to commit any further.

WEALTH MANAGEMENT

We have not been happy with returns in portfolios in this strategy. Markets have been very concentrated in performance. Our approach has been to employ greater diversification, and this has been a drag on returns. We are evaluating several steps and will be making changes in the current quarter.

MAJOR INDICES

as of 9/30/2018

Large Cap Stocks (S&P 500)	7.0%
Dow Jones Industrial Average	9.0%
Mid Cap Stocks (S&P 400)	7.9%
NASDAQ Composite	16.6%
Small Cap Stocks (Russell 2000)	10.5%
MSCI EAFE	-3.8%
Barclay Aggregated Credit Index	-2.2%
Inflation	2.7%

Equity indices are nine-month returns excluding dividends.

NOTICES

Check out www.riverplacecapital.com It offers more information including a blog with weekly insights.

Riverplace Capital offers our clients free financial planning. We believe strongly in the value of planning as it helps document goals and objectives and provides a benchmark to measure progress. Planning helps us provide better, more targeted financial service to you. If you would like to discuss a financial plan, contact your portfolio manager at (904) 346-3460

CONTACT US

1301 Riverplace Boulevard
Suite 2130
Jacksonville, Florida
32207-9030

(904) 346-3460
(904) 346-3434 Fax

info@riverplacecapital.com