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the Lonely Bull

April 2019

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

Number 83

FIRST QUARTER

A great start to the year! It now begs the question, "where do we go from here?" With the phenomenal returns so far (see the Indices section of this letter), logic implies that much of reasonable expectation has already been realized. This would be true taking 2019 as a stand-alone reference, but if it is combined with 2018, then to some extent returns are still recovering. Last year's returns were negative for all the major indices.

The catalysts for the sell-off in last year's fourth quarter were indications that economic growth was slowing in China and Europe. Investors feared this was likely to infect our economy as well. In addition, they worried that corporate earnings had peaked, and we just might have an economic downturn. To add fuel to their concerns, the Federal Reserve seemed intent on continuing to raise interest rates. The mix was flammable, and stocks burned.

That fear was dispelled with additional data and the Fed Chairman relenting and stating that the Federal Reserve would pause before considering further interest rate rises. Investors were placated and returned to buy perceived bargains. December 24 was one of the worst days ever, and then December 26 was the best of the year; can you spell volatility?

Inflation has not accelerated and remains low. The Federal Reserve is on hold, so interest rates for longer maturities have declined. Interest rates remain historically low. Since interest rates continue to be low in Europe and Japan, rates here should stay subdued for the time being; low for longer is the mantra. This may not be good for fixed income investors, but it is excellent for most other asset classes. Lower interest rates mean higher valuations for stocks, real estate and many other assets.

International markets increasingly have more influence on ours. International markets began correcting well before ours last year; then ours caught the same growth or even recession fears. Interestingly, many did not correct to the same extent as ours, but then again, most had not increased as much either. Since the beginning of the year, the world's stock markets have been in rally mode. Again, the question, "where do we go from here?" (See the Forecast section of this letter.)

> *"Price is what you pay. Value is what you get."*
>
> ***- Warren Buffett***

TALK WITH US

"You ask, we answer," just one of the new features of our recently revamped website in the Frequently Asked Questions (FAQ) section, seeks to answer most questions that you may have about investing, ways of going about it, selecting and working with an advisor, and many others. It includes a **Lonely Bull Learning Library** as well as all the standard information that you have come to expect including who we are, where we are and what we do. The additions are designed to greatly enhance access and usefulness to anyone interested in investing and exploring ways to go about it. Check out www.riverplacecapital.com.

If videos are the way you prefer to gather information, we encourage you to subscribe to our Riverplace Capital YouTube channel. Join us for "Lunch with the Lonely Bull" on Thursdays featuring Vice President Scott Wohlers hosting a weekly update on the market, as well as answering financial questions. You can participate by sending us a private message on the Riverplace Capital Facebook page with your market or financial questions on Thursdays between 12:00 and 12:30 p.m. After, there is a weekly Facebook live video at 12:45 p.m. If you can't make it one day don't worry, YouTube videos summarizing these sessions are also placed on the new website and can be found in the Learning Library. We encourage you to Like Us on Facebook and share videos with friends and family.

If you are interested in receiving weekly updates from us, subscribe on the website, and you will receive the latest blog via email, along with some relevant investment and financial highlights of the week.

Occasionally we provide topic related gatherings and presentations for clients and friends. Last year we provided a luncheon overview of the 2018 Tax Code. This year we will be hosting small group presentations and one-on-one consultations about **Opportunity Zones.** Let us know if you are interested, and we will organize a time and date that works for you.

As you can see, we continue to develop resources to meet your ongoing financial and investment needs. As a reminder, we have decades of experience advising small business and real estate entities. If you know someone who can benefit from our services, we welcome the opportunity to meet them. **Riverplace Capital has a comprehensive client referral program.** Regardless of what investing matters are on your mind, we encourage you to *"Talk with Us"* so we can continue to meet your financial needs and goals.

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FORECAST

ECONOMY

There is no recession in sight and GDP is still growing. The first quarter is likely to be the weakest of the year. Over the past number of years, this has been the weak one. It may be a normal pause after a usually strong holiday season. In addition, this year's first quarter has the effects of the 35-day government shutdown and the effects of trade tariffs and tensions with several of our trading partners.

After this quarter, growth rates should accelerate. The extent of improvement will depend on resolving or at least mitigating some of the trade disputes. Nevertheless, we expect improvement. Interest rates are low, the consumer is very strong, and businesses are increasing capital investments.

Last year's growth was 2.9%. To a large degree, this is a result of the new tax law that took effect. We do not expect this pace to be sustained, but an improvement over the 2% run rate of previous years is highly likely. The best estimates are around 2.5%. A healthy and growing economy is the basis for our optimistic expectations for equity returns this year.

EQUITIES

Last year's big jump in earnings, in excess of 20%, was driven by the new corporate tax law with a much lower rate. That was obviously a one-time jump, but the rate is supposedly permanent therefore the higher level of earnings is being sustained. The benefits of the resulting stimulus are helping to drive further growth and increasing profitability. The stimulus comes from the greater ability of businesses to reinvest to increase revenues and competitiveness.

Earnings growth this year will not be anything like last year's but should still be around 5-7%. If trade issues with China subside, then they might be higher. Earnings are a major factor in driving corporate values. The other important factor is the level of interest rates. These are still low and stable. This is very healthy for higher stock prices; expect higher prices, but not in a straight line.

FIXED INCOME

"Lower for longer," we've been predicting higher rates for a long time, we are throwing in the towel. Against all historical precedence, interest rates are staying persistently low. Economists are as puzzled as anyone. Perhaps U.S. interest rates are influenced by the very low rates in Europe and Japan. Or perhaps, monetary policy has become an inefficient stimulus mechanism, merely putting more and more liquidity in the system and only influencing asset prices rather than efficiently driving activity. The resultant large pool of liquidity helps keep rates low; whenever there is too much of something the price (interest rates) goes down. Whatever it is, they have remained low and look to remain so for some time to come.

INVESTMENT STRATEGY

EQUITIES

We are fully invested. The business backdrop is just too good to be otherwise. In addition, recent money flows into the stock market have been very strong. Companies themselves have signaled positive outlooks. So, business fundamentals are strong, technical indicators about investor behavior also point to strong buying and higher prices.

Riverplace Capital has made a few changes to portfolios. Weak performers or ones that surprise with poor fundamentals have been sold and replaced with new candidates. These are usually companies we have had our eye on for some time, only looking for the opportunity to include them. As most of our clients know, we maintain a fixed number of positions for specific portfolios or strategies. When fully invested, something must be removed for a new holding to be added. This adds discipline to the process, ensuring strong reasons for change.

Our investing overweight, or emphasis, is in the more cyclical sectors of the economy. This is where the values have been, and these companies benefit from continued strength and expansion. These areas have been left behind over the past few years as growth companies became all the rage. Therefore, they were cheap and are now playing catchup.

FIXED INCOME

The yield curve is flat; interest rates on 10 or even 30-year obligations are not much higher than those 3-5 years out. (In fact, the three-month Treasury bill yield is slightly higher than the 10-year bond yield. We will speak to the implications of this in a future publication.) Therefore, it has been easy to avoid the risk inherent in committing to long durations by staying relatively short in commitments. We are also only buying the highest quality instruments. The small difference in return for lower quality paper is not worth the additional risk. **For us, fixed income is an asset class that should be as risk free as practical.** Higher returns should be sought through owning equities.

WEALTH MANAGEMENT

We have modestly adjusted the weightings of our index-based models. These were done to bring them more into line with where the best returns are occurring. These are modest changes. In general, we have been pleased with the performance of this strategy. We do not foresee many future changes.

MAJOR INDICES

as of 3/31/2019

Large Cap Stocks (S&P 500)	13.1%
Dow Jones Industrial Average	11.2%
Mid Cap Stocks (S&P 400)	14.0%
NASDAQ Composite	16.5%
Small Cap Stocks (Russell 2000)	14.2%
MSCI EAFE	9.0%
Barclay Aggregated Credit Index	5.1%
Inflation	1.7%

Equity indices are 3-month returns excluding dividends.

NOTICES

Check out our website. It offers more information including our blog with weekly insights. We look forward to your feedback.
www.riverplacecapital.com

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 a financial plan, contact your portfolio manager at (904) 346-3460

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