



## RSG Advisory Investment Update

*Mid-Year 2019*



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Dear Investors & Friends,

2019 is proving to be a very strong year for investments across the globe. The S&P 500 Index was up +4.3% in the second quarter, bringing gains for the year to +18.5%. The International MSCI EAFE Developed Stock Index was up +3.7% and is up +14.0% for the year. Contrary to a consensus view that the Fed would raise rates this year and that bonds would fall, interest rates are down for the year (i.e., from close to 3% to about 2%) and the U.S. Barclay's Aggregate Bond Index is up +5.6% for the year (see Page 2).

### **Our 2019 Mid-Year Strategy Update**

**Continue to stay fully invested.** While investment gains have been impressive this year, it is important to keep them in perspective - they have largely recouped from the volatility and declines of last year's negative return. The fact that the S&P 500 has not advanced much over 2018 highs, while earnings have grown, suggests to us that the market still has upside. There are other factors that bolster the case for further gains, such as low interest rates (see Page 3) and that we are in the third year of the presidential cycle, which typically incentivizes the President to provide economic stimulus (e.g., a Fed rate cut, etc.) the year before elections (see Page 3).

**Further increase allocations to International Stocks.** Our current overweight to international stocks vs U.S. bonds stems largely from our opinion that they appear relatively cheap and poised to deliver competitive returns. We plan to further increase our international exposure. Why now? U.S. interest rates have fallen by about a third this year and the Fed will likely be cautious in raising interest rates for fear of tipping the U.S. into a recession. In fact, many are predicting a cut by the Fed this summer and again before year end. At current interest rate levels, we believe International Stocks' dividend yields of approximately 3% compare favorably with bonds which have low rate and limited opportunity for price appreciation (see Page 4).

**Maintain a high-quality bias.** We believe stocks will continue to advance and a recession is not imminent. However, certain economic signals (such as short-term interest rates exceeding long term rates, etc.) suggest to us that risks have increased. As such, our tilt towards higher quality assets (such as AAA bonds) seems prudent within our overall strategic bond allocations, understanding they may weigh on near-term returns.

**Prepare to actively rebalance.** We expect the recent surge in stocks prices, trade negotiations, the coming election season, and the actions of an unpredictable President to continue to drive elevated levels of swings in global investments. Should we see material movements in the markets (e.g., 15-20%), we plan to actively rebalance portfolio allocations.

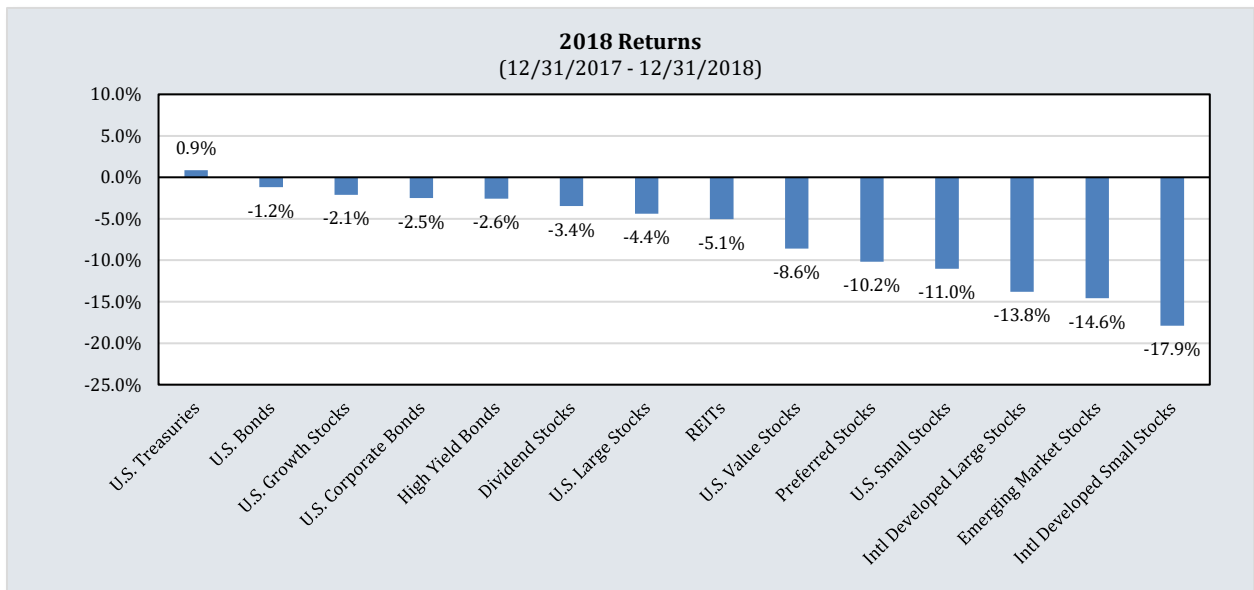
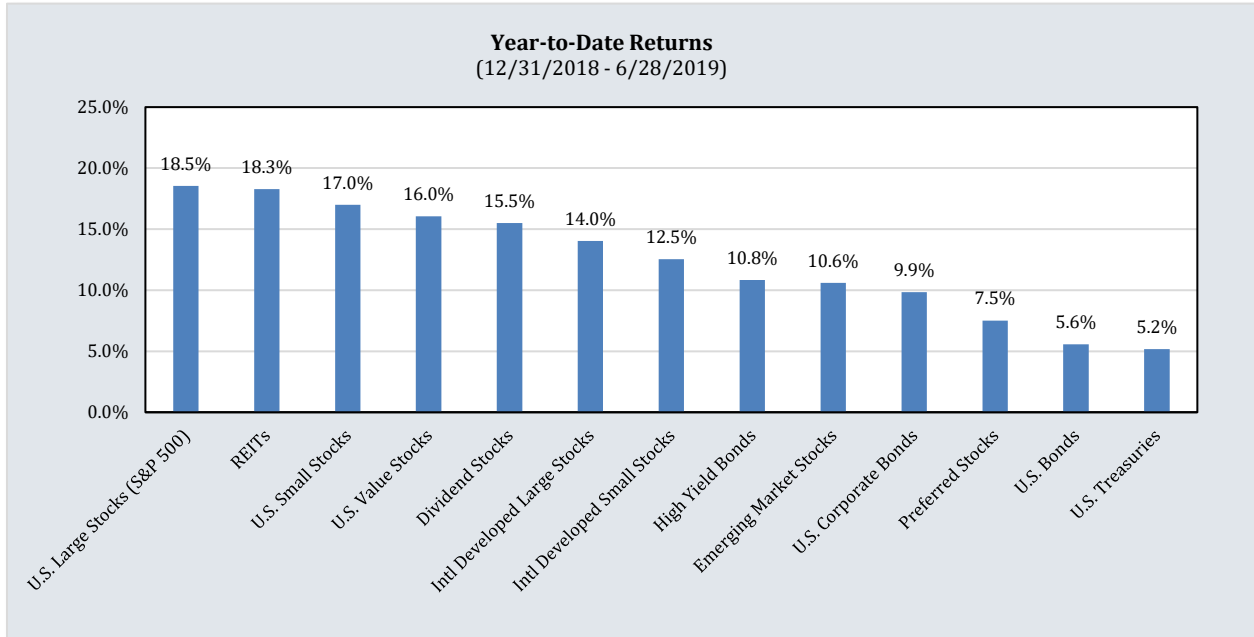
Should you have questions please let us know. In the meantime, we wish you a wonderful summer!

All the best,

Your RSG Advisory Team

## Global Asset Class Returns

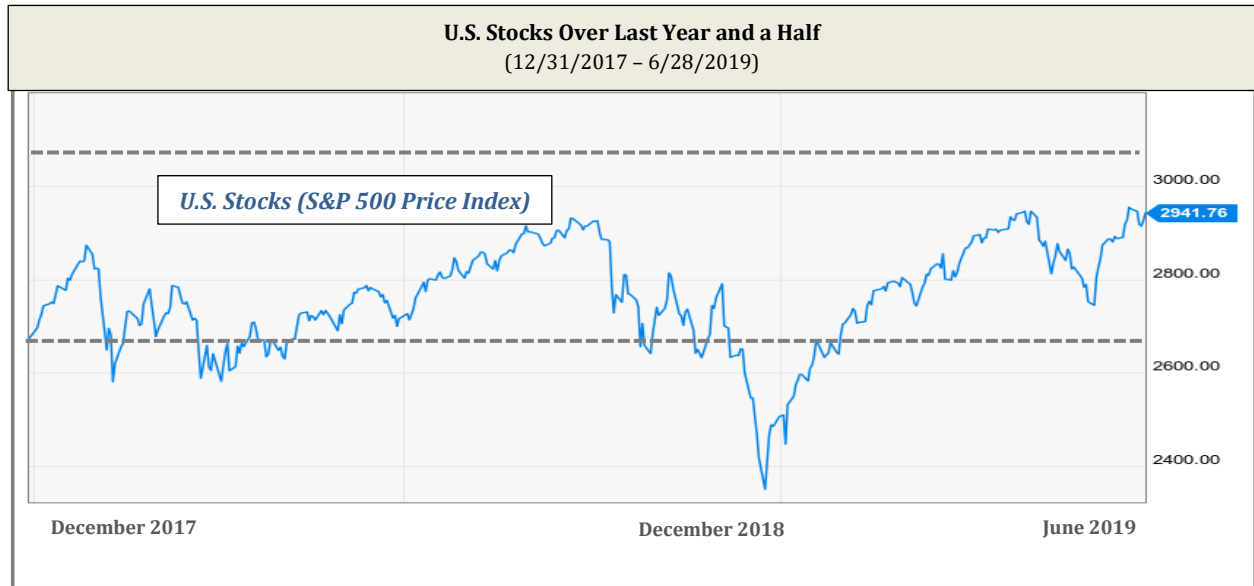
**It has been a very good year for investments across all categories.** This in stark contrast to last year, when nearly all investments posted losses. The breadth of gains across all asset classes can be seen in the table below. Even U.S. Treasuries posted a positive return. U.S. Large Stocks have been the relative winners this year, continuing a multi-year pattern.



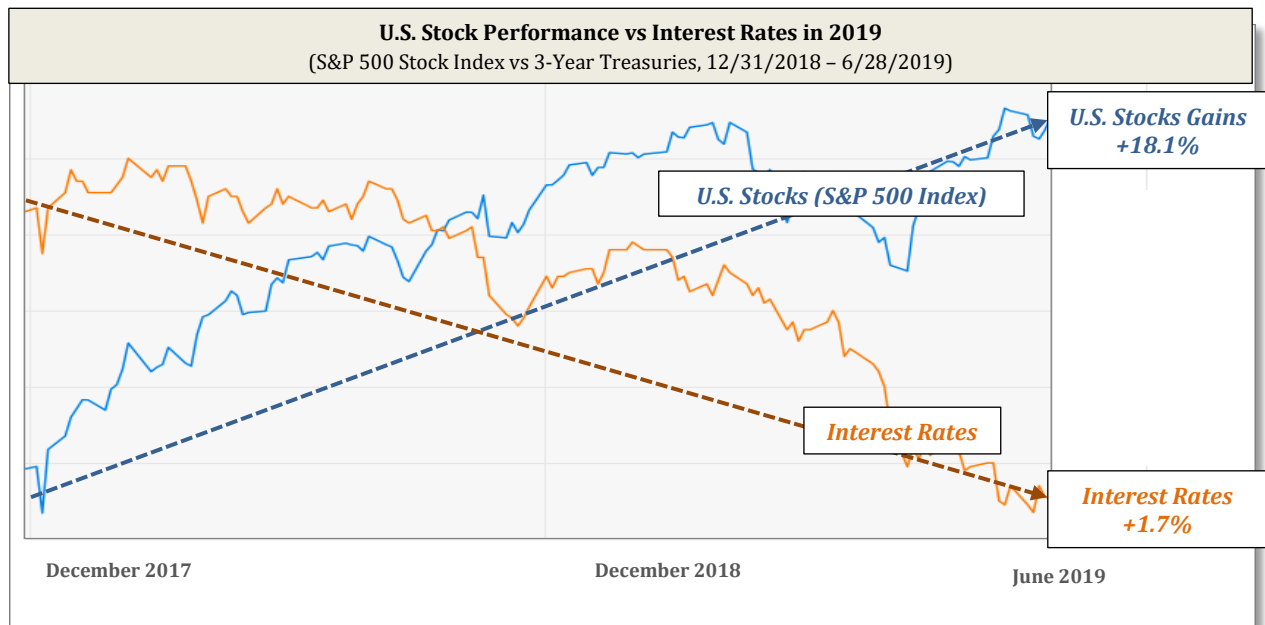
The 'Important Disclosures' section provides index definitions. Index data source is YCharts. Indices are inclusive of reinvested dividends. Asset classes are reflected by the indices in parentheses: U.S. Large Stocks (S&P 500), U.S. Stocks (S&P 500 Stock Index, no dividends), U.S. Value Stocks (Russell 3000 Value), U.S. Growth Stocks (Russell 3000 Growth), U.S. Small Stocks (Russell 2000), Intl Developed Large Stocks (MSCI EAFE International Developed), Intl Developed Small Stocks (MSCI Small Cap EAFE), Emerging Market Stocks (MSCI Emerging Markets), Dividend Stocks (S&P 500 Dividend Aristocrats), REITs (Wilshire U.S. REITs), Preferred Stocks (S&P U.S. Preferred Stocks), High Yield Bonds (Barclays High Yield), Floating Rate Bonds (Market Vectors Floating Rate Bonds), U.S. Bonds (Barclays Aggregate Bond), U.S. Corporate Bonds (Barclays Corporate Bond), U.S. Treasuries (Barclays U.S. Treasury).

## Case for Further Stock Gains

**Modest Gains Over Last 18 Months.** While gains have been significant this year, stock prices have been range bound over the last year and a half. Today we are up about 3% from 2018 highs, while earnings have grown, and interest rates are lower. This bolsters our overall viewpoint that stocks have upside from current levels.



**Lower Interest Rates.** Stocks tend to move in the opposite direction of interest rates, and low rates encourage greater consumption which boost earnings and are a boon to real estate prices. We have seen this in the first half of 2019. Interest rates now hover around +1.7%, and with near-term interest rate hikes unlikely we expect the trend to continue through 2019.



NOTES: 'Important Disclosures' section provides definitions. The S&P 500 Index includes dividends, the S&P 500 Price Index does not include dividends, Interest Rates (3-Year Treasuries). Data source: YCharts.

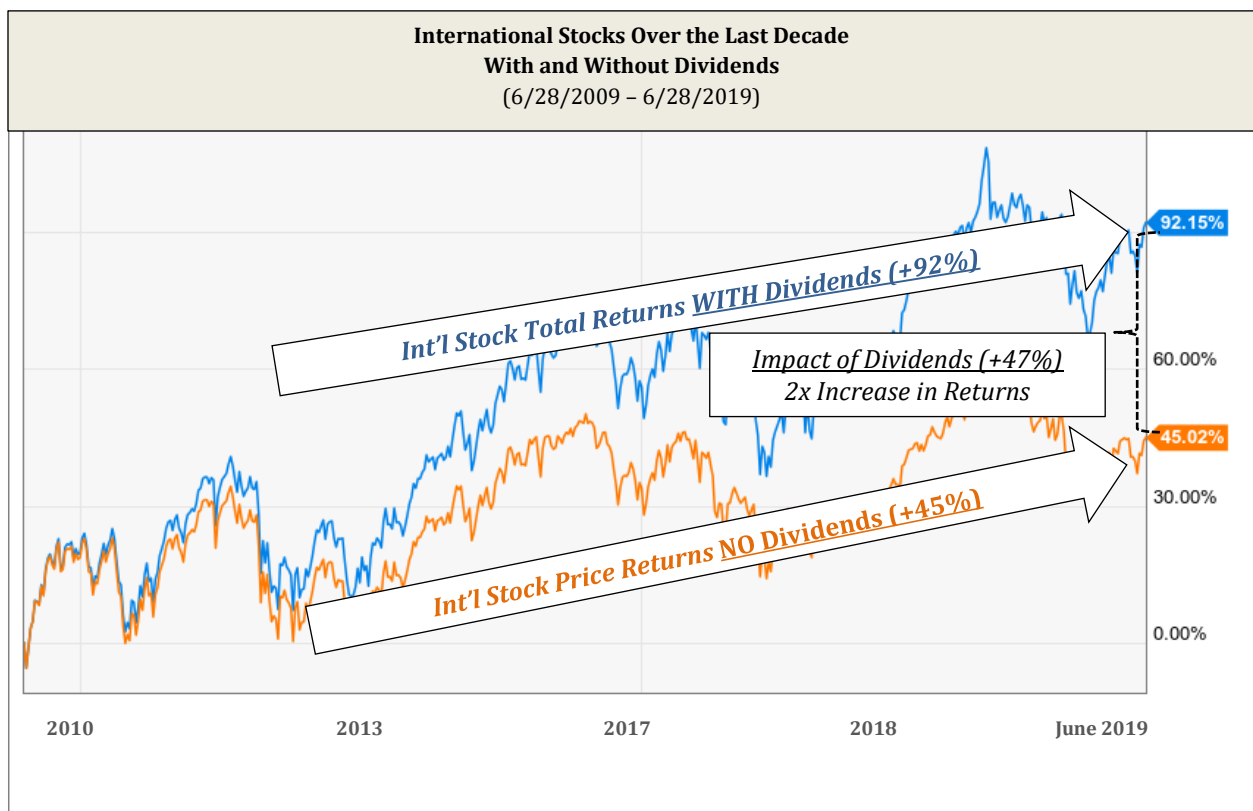


## Increase our International Stock Allocation Further

**In addition to compelling valuations, we feel international stocks now offer an even greater opportunity to outperform bonds** driven largely by how much interest rates have moved. Stocks do tend to come with greater portfolio fluctuations, but we think the longer-term opportunity is worth the extra volatility.

**Long-Term Growth Potential vs Bonds:** International Stocks offer investors to participate in the growth of corporate earnings. In contrast, it's hard to see much upside in bonds with interest rates hovering around 2%.

**Greater Current Income vs Bonds:** Not only do International Stocks provide investors with the benefit of future earnings growth, they currently provide higher dividend income than U.S. bonds (about 3% versus 2% income for bonds). To demonstrate the importance of dividends over the last decade International Stocks have gained +45% before dividends. However, with the benefit of dividends, International Stocks have generated a total return of +92% (twice the return without dividends) over that period.



The 'Important Disclosures' section provides index definitions. Source YCharts is source of earnings growth estimates. Index data source is YCharts. Int'l Stocks Total Returns with dividends (MSCI EAFE International Developed), Int'l Stock Prices Returns (MSCI EAFE International Developed without dividends).

## Important Disclosures

Securities are offered through LPL Financial, member FINRA/SIPC. Investment Advisory Services offered through RSG Advisory a registered Investment Advisor. RSG Advisory and LPL Financial are separate, non-affiliated entities.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. We suggest that you discuss your specific situation with your financial advisor prior to investing.

All indices are unmanaged and may not be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges inherent to investing. All performance referenced is historical and is no guarantee of future results.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

The prices of small cap stocks are generally more volatile than large cap stocks.

The payment of dividends is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Investing in Real Estate Investment Trusts (REITs) involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

Technical analysis is based on the study of historical price movements and past trend patterns. There is no assurance that these movements or trends can or will be duplicated in the near future.

Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

All investing involves risk including loss of principal. No strategy assures success or protects against loss.

### **Index definitions and terms:**

S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries and includes dividends. The S&P 500 price index does not include dividends.

NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

Russell 3000 Index is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S. incorporated equity securities.

Russell 3000 Value Index is a market-capitalization weighted equity index maintained by the Russell Investment Group and based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. Included in the Russell 3000 Value Index are stocks from the Russell 3000 Index with lower price-to-book ratios and lower expected growth rates.

Russell 3000 Growth Index is a market capitalization weighted index based on the Russell 3000 index. The Russell 3000 Growth Index includes companies that display signs of above average growth. The index is used to provide a gauge of the performance of growth stocks.

Russell 2000 Index is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index. The index serves as a benchmark for U.S. small-cap stocks.

MSCI EAFE Index is a stock index that is a performance benchmark for the major international equity markets as represented by 21 major MSCI indices from Europe, Australia and Middle East. Unless noted otherwise, the index includes dividends.

MSCI EAFE Small Cap Index is an equity index which captures small cap representation across Developed Markets as represented by MSCI indices from Europe, Australia and the Middle East.

MSCI Emerging Markets Index consists of 23 economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the UAE.

Dividend Aristocrats Index are S&P 500 index constituents that have increased their dividend payouts for 25 consecutive years or more.

Wilshire REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the U.S.

Goldman Sachs Crude Oil Total Return Index reflects available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract plus the Treasury Bill rate of interest that could be earned on funds committed to the trading of the underlying contracts.

Bank of America Merrill Lynch U.S. Corporate AAA Index is an index of U.S. AAA corporate bonds. Similarly, the Bank of America Merrill Lynch U.S. Corporate BBB Index includes U.S. BBB corporate bonds

S&P U.S. Preferred Stock Index is designed to serve the investment community's need for an investable benchmark representing the U.S. preferred stock market. Preferred stocks provide investors with a dividend, but do not offer equity in shares.

Bloomberg High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. High Yield bonds are considered low quality bonds.

Market Vectors Floating Rate Bond Index This index provides exposure to the floating rate segment of the U.S. investment grade bond market. Floating rate notes are bonds that have coupon payments that change based on various market characteristics- including rises and falls in interest rates. Holdings are chosen based on amount of debt issued.

Barclays US Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented.

Barclays Corporate Bond measures the performance of the investment grade U.S. corporate bond market. Securities must be fixed rate, U.S. dollar denominated, taxable and rated investment grade as defined by the Index methodology. Inclusion is based on currency of issue, not its domicile.

Barclays US Treasury Index is a market-capitalization weighted index that measures the performance of public obligations of the U.S. Treasury that have a maturity of one year or more.

Citigroup USBIG Treasury Bill 3M index "T-bill" is an unmanaged index representing monthly return equivalents of yield averages of the last 3-month Treasury Bill issues.

Three-Year treasuries is an unmanaged index representing monthly return equivalents of yield averages of the last the-year Treasury Bill issues from the Federal Reserve.

CBOE Volatility Index® (VIX®) is meant to be forward looking, showing the market's expectation of 30-day volatility in either direction, and is considered by many to be a barometer of investor sentiment and market volatility, commonly referred to as "Investor Fear Gauge".

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.