



# FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	1 Yr.
<b>S &amp; P 500 Index</b>	1.94%	13.65%	9.50%
<b>Russell Midcap Index</b>	0.86%	16.54%	6.47%
<b>Russell 2000 Index</b>	-2.09%	14.58%	2.05%
<b>Dow Jones Industrial Average</b>	0.17%	11.81%	10.08%
<b>Morgan Stanley EAFE Index</b>	0.63%	9.98%	-3.71%
<b>DJ US Real Estate Index</b>	4.19%	17.08%	19.41%
<b>S&amp;P Commodity Index</b>	1.61%	14.97%	-3.04%
<b>Barclays Aggregate Bond Index</b>	1.92%	2.94%	4.48%



## INDEX RETURNS

After a brutal fourth quarter in 2018, stocks rebounded aggressively in the first quarter and finished one of the best three month periods in history. The S&P 500 increased 13.65% in the quarter and is now up 9.5% over the last year. Growth outperformed value again with the S&P 500 Growth index up 14.95% vs only 12.19% for value.

Small cap stocks, as measured by the Russell 2000, declined 2.09% in March but still finished up 14.58% in the first quarter. It is interesting to note that small cap value outperformed small cap growth by nearly 2% in Q1.

International stocks had a really difficult time in 2018, but have started to recover in 2019. The MSCI EAFE Index was up 9.98% in the first three months of this year, but is still negative over the last 12 months. The MSCI Emerging Markets Index was up 9.92% in the first quarter, although it is also still down 7.41% over the last year.

The Barclays Aggregate Bond Index rose 1.92% in March after the Fed announced that they are unlikely to raise interest rates in 2019. This allowed the Aggregate Index to increase 2.94% in the first quarter and it is now up 4.48% over the last year. Emerging Market Bonds were up 7.42% in Q1 of 2019.



## ECONOMIC REVIEW AND OUTLOOK

The U.S. economy grew at a 2.6% annualized rate in the fourth quarter following the 3.4% rate in the 3rd quarter of 2018. Early estimates for the first quarter of 2019 are in the 1.0-2.0% range. Expectations are for the economy to continue to slow down in 2019. We think the risk of a recession in late 2019 or early 2020 is relatively high. There are a number of economic indicators that are flashing warning signs.

The Leading Economic Index increased in February by 0.2% to 111.5 following no change in January and a

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decline of 0.1% in December. Industrial Production rose 0.1% in February after declining 0.4% in January. The Capacity Utilization rate (which measures how much slack is in the economy) was at 78.2 percent in February which was down 0.1% from January and is still 1.6 percentage points below its long term average.

Non-farm payrolls increased by 196,000 in March. The unemployment rate remained at 3.8% which is slightly above a 49 year low. The number of unemployed was unchanged at 6.2 million. In March, the labor force participation rate was at 63.0%. Initial weekly unemployment claims were 202,000 for the week ending March 30. According to the JOLTS survey, there were 7.1 million new job openings at the end of February, which is near an all-time high. This means there are more jobs available than there are unemployed Americans.

Manufacturing increased in March to 55.3% from 54.2% in February on the ISM PMI index. This marks the 119<sup>th</sup> consecutive month of expansion (any reading above 50 represents expansion). The ISM Non-Manufacturing index was at 56.1% in March which marks the 110<sup>th</sup> consecutive month of expansion. The Business Activity Index was at 57.4% and the New Orders Index was at 59%. This data points towards slow economic growth in 2019.

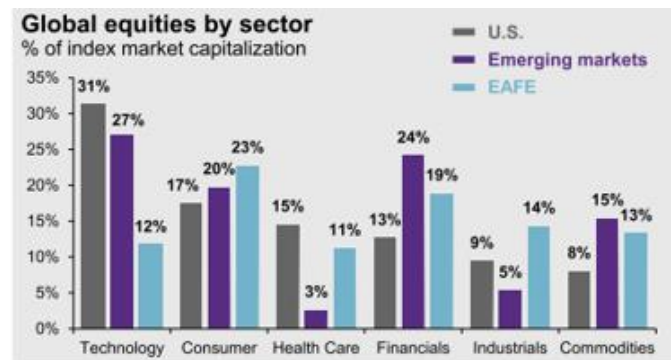
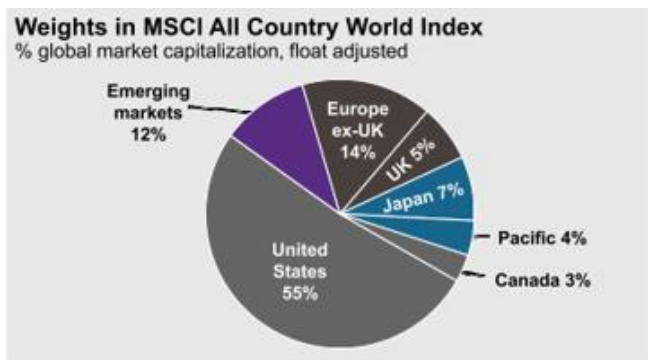
Global economies have started to cool. The JP Morgan Global PMI was at 50.5 in March. Any reading above 50 represents expansion, but this number has been coming down. The Euro Area is at 47.5 led by the UK at 55.1. Emerging economies had a March reading of 51.0 led by Russia at 52.8 and India at 52.6. Emerging Economies all posted improved readings in March from their February lows.



## EQUITY AND BOND MARKETS

The first quarter of 2019 saw impressive market returns due to oversold conditions and a Federal Reserve that is now not expected to raise rates this year. This more accommodative stance gave investors optimism about the earnings environment for the remainder of the year. Although year over year earnings growth will be subdued (maybe even negative in the first quarter), we should still see some growth by the end of the year.

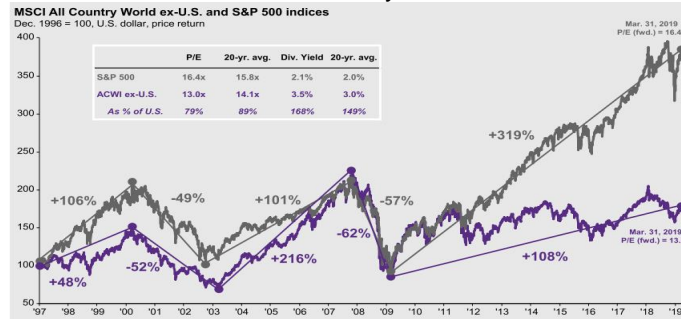
The forward P/E ratio for the S&P 500 is now at 16.3 which is above the 25 year average. U.S. Equities now represent 55% of the Global Market Capitalization, and yet we only represent about 24% of Global GDP. Meanwhile, Emerging Market economies represent more than half of Global GDP, and yet E.M. equities only represent about 12% of the Global Market Capitalization. It is unlikely that the U.S. Market Cap weighting will move higher relative to other regions over the next 5-10 years. It will be important to maintain global diversification and exposure to multiple global regions.



Technology now represents 31% of the U.S. index market capitalization. This is historically very high and might be flashing a warning sign for the sector. Finding value in the domestic market could be challenging over the next 6 months as we have just celebrated the 10<sup>th</sup> birthday of this bull market. It is important to remember that the average bull market lasts about four years, so we are clearly in late or extra innings.

Since 2009, the MSCI All Country ex-U.S. index is up 108% compared to the 319% from the S&P 500. This

deviation in returns has caused a valuation premium for domestic equities and a discount for international stocks. The P/E ratio for international stocks is about 13 times earnings, which is roughly 21% cheaper than U.S. equities. The international dividend yield is 3.5% vs. 2.1% for the S&P 500. International equities have started to recover in 2019 and we expect that this will continue over the next few years.



## PORTFOLIO MANAGEMENT

The Investment Committee went almost the entire 2018 year without a major portfolio change. Recently however, we have started to make a few changes to make sure that the portfolios are well diversified. Given the current economic and market environment, we do not believe that it is prudent to have a concentrated portfolio, or a portfolio that has too much equity risk. We feel as though it is time to have the car on cruise control, and not full throttle because there might be some curves in the road ahead.

We have added some duration to the bond portfolio. We have been very short duration for the last few years in this low interest rate environment. Now that rates have moved a bit higher, we felt more comfortable going out a little farther on the yield curve. This should provide a bit more income on the bond side of the portfolio.

We have also created a small cash position on the equity side of the portfolio. This was done mainly as a way to have some cash on hand if a market correction occurs. When this money goes back to work, it is likely again that it will be a bit more conservative than the momentum fund that was sold. With a difficult earnings season approaching, and a recession looming in the next 6-18 months, diversification will be critical to our success.



## FINANCIAL PLANNING

Now that your 2018 taxes have been filed, what can you do to improve your 2019 tax bill? Begin by reviewing your current tax withholdings. Then think about these suggestions to reduce your taxable income.

- Maximize your retirement plan deferrals. The 401(k) maximum is \$19,000 and there is a \$6,000 catch up provision for those 50 and over. The SIMPLE Plan maximum is \$13,000 with a \$3,000 catch up. Traditional IRA and Roth IRA maximums are \$6,000, with a \$1,000 catch up provision.
- Utilize 529 savings accounts for kids and grandkids educational pursuits. Most states have really nice tax incentives for contributing. Indiana offers a 20% tax credit on contributions up to \$5,000 in a calendar year! Many other states offer really nice deductions.
- The standard deduction will be \$12,200 per person or \$24,400 for a married couple in 2019. Those over age 65 get an additional \$1,300 deduction.
- Don't let the higher standard deduction keep you from being charitable. There are two great ways to give and help your taxes. First, if you are over age 70 ½, then you can give directly from your IRA as a Qualified Charitable Distribution. This is a great way to give and reduce your taxable income. The second option is to contribute multiple years worth of giving to a charitable gift account. You get to deduct the entire contribution to the account in the year in which the contribution was made. However, you can give to charities from this account at any time in the future. Talk to us about your particular situation and we can help determine the best option.

Here are some smart phone apps that we think you might enjoy. Please let us know if you have any new apps that you would like to share with everyone.

**GoodRx**

- **Good Rx:** The Good Rx application allows you to find the lowest local prices for your prescriptions at more than 75,000 pharmacies. Get free coupons and save your prescriptions to receive refill reminders. This is a free application.



- **Nextdoor:** The Nextdoor application is the private social network for your neighborhood. It is the best way to hear what is happening in your community. Find garage sales, sell your household items, find a babysitter, or get recommendations for local painters or contractors. This app allows you to stay in touch with your neighborhood. This is a free application.



- **Think Dirty:** The Think Dirty app is the easiest way to learn about ingredients in your household products. Scan the barcode and the application will let you know what harmful chemicals are in the product. It will also recommend comparable products that are safer. This is a free application on most platforms.



## Company News

Galecki Financial Management works hard to foster a positive workplace culture. Being a small company, we consider our team a family and believe it is important to take time away from the office to socialize with each other, our significant others, and children.

Every month we mark time on the calendar for Team Building activities. Sometimes we just grab lunch or a drink together at 4:00 PM. We have also participated in a variety of activities in the Fort Wayne area. We've been to Fort Wayne TinCaps games, attempted bowling, played laser tag at Crazy Pinz, completed a Board and Brush workshop, drove Go-Karts at FastTrack Racing, solved a few escape rooms, and much more!

This year we have a cooking class and the Corporate 5K and 1 Mile Run/Walk on the docket!

Please enjoy a few photos from our various adventures!



- Galecki Financial Management Investment Committee

**Special Note:** If you would like to schedule an appointment with a Certified Financial Planner™ Professional, please visit [www.galecki.com](http://www.galecki.com).