



FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	0.57%	7.71%	10.56%
Russell Midcap Index	-0.64%	5.00%	7.46%
Russell 2000 Index	-2.41%	3.58%	11.51%
Dow Jones Industrial Average	1.97%	9.63%	8.83%
Morgan Stanley EAFE Index	0.87%	1.35%	-1.43%
DJ US Real Estate Index	-2.57%	0.65%	2.07%
S&P Commodity Index	3.93%	1.34%	11.84%
Barclays Aggregate Bond Index	-0.64%	0.02%	-1.60%



INDEX RETURNS

Domestic and Growth. That has been the story for 2018 through the first three quarters. The S&P 500 Growth Index is up 17.24% YTD while the S&P 500 Value Index is up 3.51%. That is a major variance and is reminiscent of the late 1990s before the 2000 market correction.

Small cap stocks have also done well with the Russell 2000 Index up 11.51% on the year. Breaking this down shows the Russell 2000 Growth Index up 15.76% YTD while the Russell 2000 Value index is only up 7.14%.

The Dollar has continued to strengthen this year and has really hurt international investments. The MSCI EAFE Index is now down 1.43% on the year. Emerging markets are now down 7.68% on the year with Brazil down 13% and Chile down 11%.

The bond market is struggling with the Federal Reserve rate increases. The Barclays Aggregate Bond Index was down 0.64% in the quarter and is now down 1.60% on the year. Emerging Debt is down 3.62% YTD.

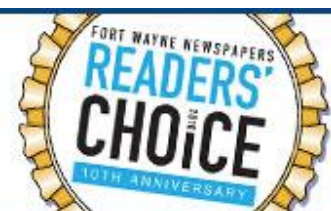


ECONOMIC REVIEW AND OUTLOOK

The U.S. economy grew at a 4.2% annualized rate in the second quarter following the 2.0% rate in the 1st quarter of this year. Early estimates for the third quarter are in the 3.0% range. Expectations are for the economy to continue to grow over the last three months of the year. We think the risk of a recession in 2019 is increasing with the Fed continuing the rate hike cycle. However, we see solid numbers for the remaining three months of 2018.

The Leading Economic Index increased in August by 0.4% to 111.2 following a 0.7% increase in July and a 0.5% increase in June. Industrial Production rose 0.4% in August after rising 0.4% in July. The Capacity Utilization rate

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was at 78.1 percent in August which is still 1.7 percentage points below the long-term average.

Non-farm payrolls increased by 134,000 in September, the unemployment rate dropped to 3.7% and the number of unemployed dropped by 270,000 to 6.0 million. In September, the labor force participation rate remained at 62.7%. Initial weekly unemployment claims were 207,000 for the week ending September 29. According to the JOLTS survey, there were 6.9 million new job openings which is a new high for the series. This means there are more jobs available than there are unemployed Americans.

Manufacturing decreased in September to 59.8% from 61.3% in August on the ISM PMI index. This marks the 113th consecutive month of expansion (any reading above 50 represents expansion). The ISM Non-Manufacturing index was at 61.6% in September which marks the 104th consecutive month of expansion. The Business Activity Index was at 65.2% and the New Orders Index was at 61.6%. All data is still pointing towards economic gains in the next couple of quarters. Light vehicle sales were at an annualized pace of 16.6 million units in August. Housing starts have risen to 1.28 million units off the low of 500K units in 2009.

Global economies continue to expand at a solid pace. The JP Morgan Global PMI was at 52.2 in September. Any reading above 50 represents expansion. The Euro Area is at 53.2 led by Germany and the UK who are at 53.7 and 53.8 respectively. Emerging markets are expanding with a September reading of 50.3 led by India at 52.2. Assuming no major trade disruptions, look for further global expansions in the last quarter of 2018.

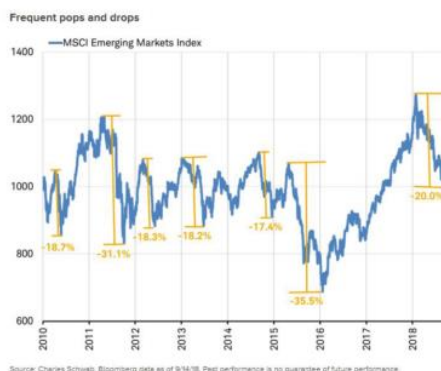


EQUITY AND BOND MARKETS

It has been an interesting year for the equity markets in 2018. Major U.S. markets have done well thanks to market cap weighted performance. In fact, through July 31 of this year, 37% of the appreciation in the S&P 500's 6.5% gain was due to only three stocks (Amazon, Apple and Microsoft). This means that a few growth stocks are driving index returns, while many of the stocks within the index are barely positive. In fact, over the last two years the S&P 500 Growth has grown 36.7% while the S&P 500 Value has only grown 12.8%. This is becoming reminiscent of the late 90's when a few growth stocks powered indexes. Unfortunately from 2000-2002, Growth stocks dropped 49% versus only 25% for value stocks.



Another major story this year has been the performance of international investments. Concerns over currency stability and trade have caused international stocks to retreat aggressively this year. Combine this with the rising dollar and it equates to international stocks wiping out strong U.S. gains in diversified portfolios. The good news is that much of the pain may be over. In fact, since January of this year, Emerging Markets have dropped by more than 20%. When this has occurred in the past, the subsequent recovery has been impressive. On average, Emerging Markets are up 10.4% six months later and 17.4% a year later.



Rapid rebounds often follow 20% declines

Date -20% bear market began	6 months later	1 year later
8/23/1990	11.9%	26.7%
1/9/1995	5.0%	2.8%
10/27/1997	-2.3%	-36.5%
5/22/2000	-18.1%	-18.6%
8/5/2002	3.2%	23.9%
5/17/2004	28.3%	35.3%
6/8/2006	27.0%	44.4%
1/21/2008	-2.6%	-51.8%
8/5/2008	-46.3%	-14.5%
11/20/2008	62.8%	107.9%
3/2/2009	74.9%	102.0%
9/13/2011	10.6%	1.8%
8/11/2015	-18.8%	3.3%
Average	10.4%	17.4%

Past performance is no guarantee of future performance. Source: Charles Schwab, Factset data as of 9/11/18.



The rising U.S. Dollar has caused some major issues thus far in 2018. International investments in stocks and bonds decrease in value when the dollar rises. Central Banks around the world are loosening their monetary policy and weakening their own currencies. China has been doing this quite well, to combat the U.S. attempts at increasing tariffs on their goods. Meanwhile, the Fed is still tightening conditions in an effort to keep the economy from overheating and to keep inflation in line with appropriate levels.

Going back to 1970, international stocks have outperformed U.S. stocks 50% of the time. Since 2009, the S&P 500 is up more than 330% versus international returns of 115% as measured by the ACWI ex-US Index. Meaning it has been nine years of outperformance for the S&P 500. We believe in the reversion to the mean theory. This means that international stocks will have their run, and many investors who only invest domestically are likely to miss out.

We have always utilized a diversified asset allocation approach. We know that it works over the long-term, even if it doesn't work during short time frames. This year has not been a good year to own assets outside of the U.S., but that does not mean that the next 5 years won't be stellar for diversified portfolios.







The new tax law changed many items beginning in 2018. One of the biggest planning opportunities revolves around charitable giving. For those over age 70 ½, utilizing the Qualified Charitable Distribution (QCD) is still a great way to give to charity and save on taxes. For those not able to utilize this technique, we are recommending a different approach.

The new standard deduction is \$12,000 for individuals or \$24,000 for married couples. This means that your gifts to charities might not be deductible if all of your deductions do not exceed the \$24,000 threshold. One strategy to maximize tax savings could be to make all of your charitable donations for 2018 and 2019 in December of 2018 to get over the \$24K threshold.

Another option is to use a Donor Advised Fund. Individuals can make multiple years of charitable giving contributions into one fund in 2018. The full contribution is deductible in 2018 (or whenever the contribution is made) yet the funds can be withdrawn from the account and forwarded to the charity of your choice in any future year. In addition, these accounts can be invested so that the account grows over time giving you more money to gift to charity. Appreciated securities can also be used to fund these accounts offering additional tax savings. Please contact us or your CPA to discuss this in more detail.

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.

-  **Google Duo:** The Google Duo app is the highest quality video calling app available. It works across platforms, so that means that you can Face Time with anyone whether they have an iPhone or an Android smartphone. This is a free application.
-  **FourSquare City Guide:** The FourSquare City Guide app lets you easily find bars, restaurants, and more in your area . anywhere in the world. Read tips and ratings from other users. This is a free application on most platforms.
-  **Hopper:** The Hopper app is a great travel application. It allows you to save up to 40% on flights and will predict if prices will go up or down. You can get notification when prices drop on flights and hotel rooms. This is a free application on most platforms.
-  **Coloring Book for Me:** A free application that lets you color on your phone or tablet.



Company News

Galecki Financial Management, Inc. has grown at a healthy rate over the last ten years. One of the main reasons for the success of the company has been the retention of our employees and the continuing education that they pursue. Here is a brief summary of our Advisors' tenure and the conferences they have attended over the last 18 months.

Greg Galecki, CFP®: (29 Years with GFM) Attended the Bob Veres Insider's Forum geared towards CEOs of the top 1% of Advisors, the TDA Retirement Seminar, his Q group of other Fee-Only business leaders, and he routinely teaches the GFM staff and provides in house Continuing Education opportunities.

A.T. Kohout, CFP®: (15 Years with GFM) Attended the TD Ameritrade Conference, JP Morgan Wealth Management Symposium, First Trust Insight Forum and the Waypoint Annual Conference.

Melanie Colwell, CFP®: (13 Years with GFM) Attended the Corgenius Conference to assist clients going through transitions such as Divorce and Death and the FPA National Conference.

Brady McArdle, CFP®: (11 Years with GFM) Attended the TD Ameritrade Conference, the American Funds Conference, and the NAPFA National Conference (Midwest Board Chairperson).

Chloe Blythe, CFP®: (6 Years with GFM) Attended the Corgenius Conference and the FPA Annual Conference in Minnesota.

Andy Young, CPA/PFS, CFP®: (5 Years with GFM) Attended the AICPA Personal Financial Planning Conference, the First Trust Conference and the Natixis Conference.

Kevin Chandler, CFP®: (4 Years with GFM) Attended the FPA Conference in Chicago, eMoney Summit, IICLE Estate Planning Conference, DFA Conference, JP Morgan Conference, TDA Retirement Seminar.

- *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.