Market Commentary for Q2 2018

Asset Class	Allocation	Q1	Q2	YTD
S&P 500 (U.S. Large Cap Stocks)	20%	-0.8%	3.4%	2.6%
Russell 2000 (U.S. Small Cap Stocks)	10%	-0.1%	7.8%	7.7%
MSCI EAFE (Developed International Stocks)	10%	-1.4%	-1.0%	-2.4%
MSCI EEM (Emerging Market Stocks)	10%	1.5%	-8.0%	-6.5%
REITS (Real Estate Investment Trusts)	10%	-6.7%	8.0%	1.3%
Commodities	10%	-0.4%	0.4%	0.0%
Barclays Aggregate (Bonds Index)	20%	-1.5%	-0.1%	-1.6%
Cash	10%	0.3%	0.5%	0.8%
Diversified Portfolio (70% Stocks/30% Fixed Inc.)	100%	-1.1%	1.4%	0.3%

Source: JP Morgan Guide to the Markets Q3 2018

Our Commitment to You:

Periodically, it is helpful to the people we service, our clients, to re-affirm who we are at Crew Capital Mgmt. We don't just manage money. We help make your retirement dreams - your reality. Our goal is to make the workday optional for you, rather than mandatory. We focus on retirement with confidence. We look squarely at "Where are you now? Where do you want to get to? And When?" We serve corporate executives, entrepreneurs, professionals, physicians and hardworking employees who have invested over their careers for retirement.

Yes, our core focus is **Investment and Financial Planning** (portfolio management, wealth accumulation, income strategies, social security). But we also stay involved with **Risk Management** (long-term care, life insurance, Medicare, fraud protection), and **Estate Planning** (wealth transfer, tax strategy, charitable giving). We are your local authority with national resources for your benefit. We apply our expertise, knowledge and resources to your specific wants and needs. We offer something you cannot get anywhere else; **a focus on you combined with our expertise**.

U.S. Stock Market: Welcome to the halfway point of 2018! When Q2 began (at April 1st) broad U.S. stock indexes were mainly down for the year. Since then, returns have improved. Small Cap stocks have now made a strong statement in 2018, outperforming larger companies. Within that trend, Small Value is now outperforming Small Growth. For Large Cap, however, Growth still leads the way. Momentum is doing well. Defensive sectors and dividend yield strategies are lagging. Through June 30th, the best investment Sectors were Consumer Discretionary, Technology, and Energy (looking very expensive). Large Cap Technology stocks were a leader. This was evidenced by the strong upward move by the tech-heavy Nasdaq index. The worst Sectors so far in 2018 were Consumer Staples (out of favor), Telecom (in transition), Industrials (opportunities brewing?), and Financials.

Returns and valuations by sector

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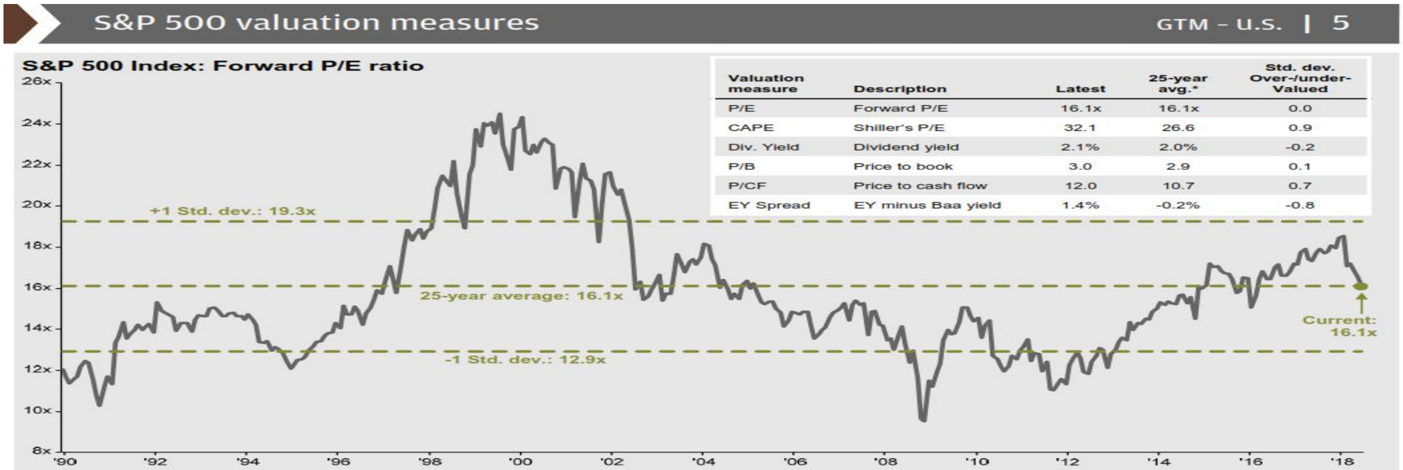
	Financials	Materials	Real Estate	Industrials	Cons. Discr.	Technology	Energy	Health Care	Cons. Staples	Telecom	Utilities	S&P 500 Index	
S&P weight	13.8%	2.6%	2.9%	9.5%	12.9%	26.0%	6.3%	14.1%	7.0%	2.0%	2.9%	100.0%	Weight
Russell Growth weight	4.4%	1.8%	2.2%	11.9%	17.9%	41.5%	1.0%	13.4%	5.7%	0.2%	0.0%	100.0%	
Russell Value weight	23.3%	4.1%	4.9%	7.9%	8.3%	9.9%	11.1%	13.9%	7.3%	3.6%	5.7%	100.0%	
QTD	-3.2	2.6	6.1	-3.2	8.2	7.1	13.5	3.1	-1.5	-0.9	3.7	3.4	(%)
YTD	-4.1	-3.1	0.8	-4.7	11.5	10.9	6.8	1.8	-8.5	-8.4	0.3	2.6	

Source: JP Morgan Guide to the Markets Q3 2018

The forward Price/Earnings ratio on the S&P 500 Index is near 16X. This is, basically, a typical average level over the past 25 years. You can also look at Dividend Yield, Price/Book, or Price/Cash Flow. By any of these measures, we don't think stocks look expensive.

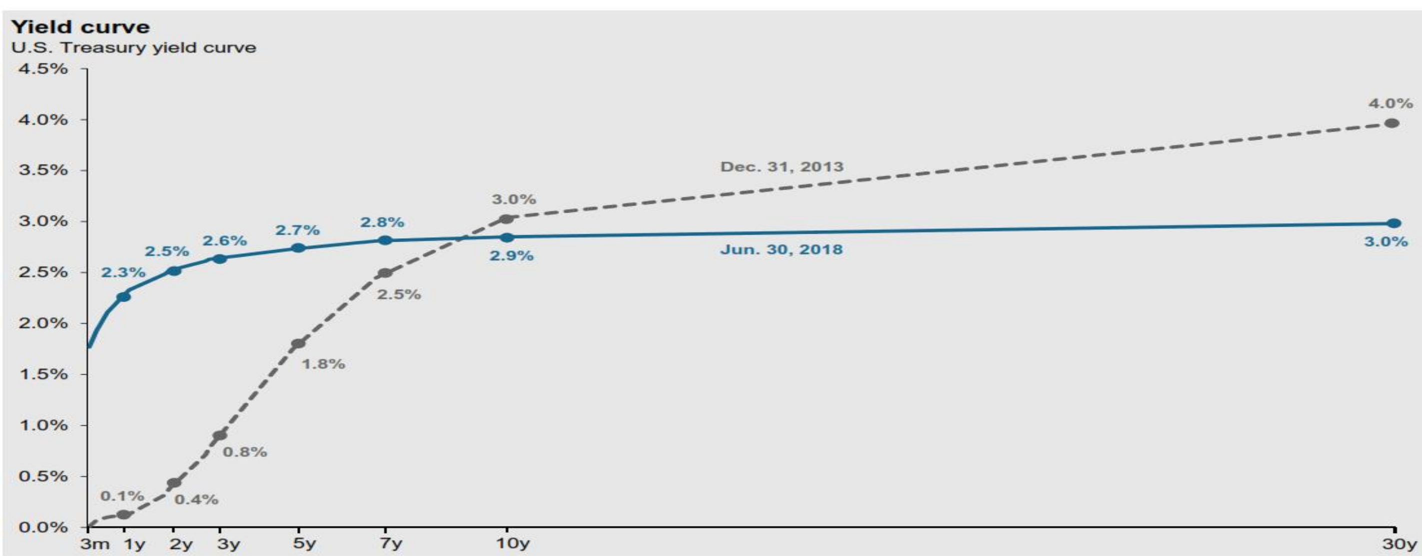


Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	16.1x	16.1x	0.0
CAPE	Shiller's P/E	32.1	26.6	0.9
Div. Yield	Dividend yield	2.1%	2.0%	-0.2
P/B	Price to book	3.0	2.9	0.1
P/CF	Price to cash flow	12.0	10.7	0.7
EY Spread	EY minus Baa yield	1.4%	-0.2%	-0.8

Source: JP Morgan Guide to the Markets Q3 2018

<u>Foreign Stock Markets:</u> In U.S. dollar terms, stock markets outside the U.S. are mainly down for 2018. The worst areas have been Emerging Markets (especially Brazil and India). Western Europe is also negative, with Germany doing poorly.

<u>U.S. Bond Market:</u> Bonds have generally delivered negative returns (mainly caused by rising interest rates). Year-to-date, only High Yield has posted positive returns. The interest rate yield curve is now even flatter than it was three months ago. We don't want to see the yield curve invert (long rates lower than short rates).



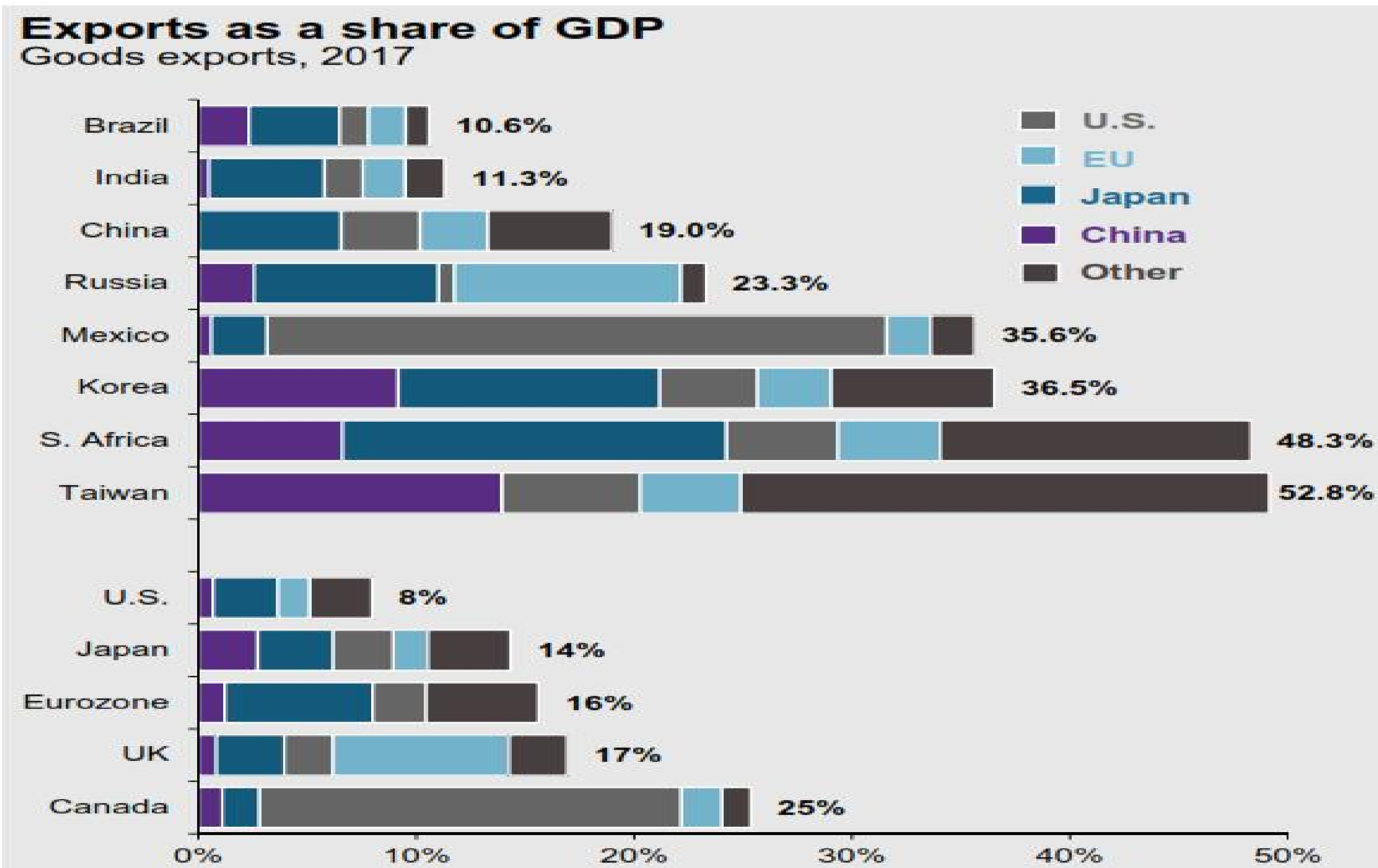
Source: JP Morgan Guide to the Markets Q3 2018

<u>Commodities & Real Estate:</u> Commodity returns are generally flat for the year. Gold is down about 4%, but we consider it an important long-term inflation hedge. REITS had poor Q1 returns (rising interest rates drove some investors away), but rebounded nicely in Q2.

Our Forecast for the Rest of 2018:

Though wise over time, stock market diversification has not helped investors thus far in 2018 (as U.S. stocks have been the main positive play). We expect a widening out of stock gains, worldwide, during the second half of 2018. As such, we don't recommend chasing (only) U.S. returns here. We're also interested in investments that make money from stock market volatility, where appropriate.

We see an excellent buying opportunity (and recommend staying the course) in full exposure to stocks in Western Europe and Emerging Asia. Yes, trade tensions between the U.S. and other nations are real. But, improvement in trade relations could present an exciting rebound in foreign stock markets (especially China). It's important to remember that the U.S. imports much more than it exports. Compared to other nations, exports are less than 10% of our Gross Domestic Product (GDP). So, escalating tariffs against countries that are mainly exporters (especially into the U.S.) will hit them much harder (Mexico, Emerging Asia, South Africa, Canada, etc.).



Source: JP Morgan Guide to the Markets Q3 2018

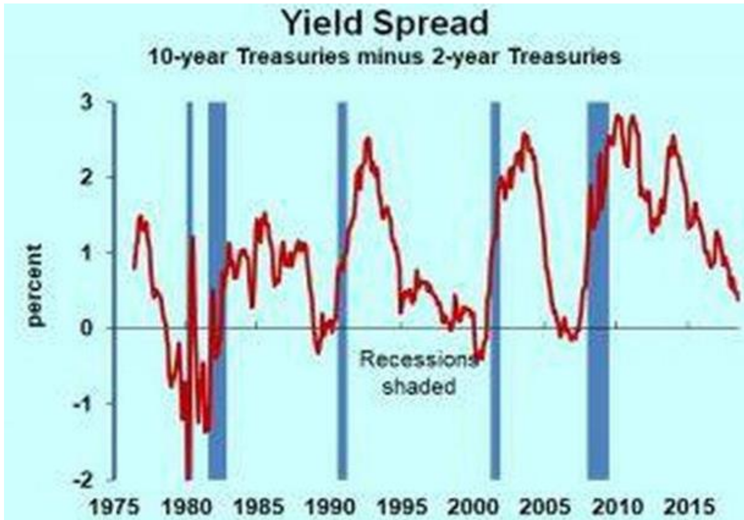
<u>We still expect U.S. stock prices to be up by 10+% at Year-End.</u> This will be led by Small Cap U.S. stocks, which have less exposure to the trade war (they import less and they export less). The Federal Reserve (FOMC) will likely raise interest rates again in 2018. The economy will handle that in stride. The midterm elections will bring less change than predicted by the media.

<u>Now is Not the time to abandon Domestic Bonds.</u> Interest rates have made their major move for now, and will tend to stay around these levels through year-end. Bonds are an important way to stay diversified (negative correlation to equities) and generate steady income.

<u>Real Estate prices will move higher</u>. There's a lack of supply of homes for sale (driving prices higher), and strong corporate profits will tighten occupancy rates for commercial space.

<u>Commodity prices will move higher</u>. Commodity prices can do better later in 2018, but are caught in the crosshairs of the trade war. Oil prices look too high to us. Gold will move somewhat higher, and remains an important diversification tool and inflation hedge.

<u>Is a Recession Coming</u>? The financial media is fixated on the idea of a coming recession due to the narrowing of the 10 year – 2 year yield spread. The theory is that when the spread turns negative it is a harbinger of a coming recession in the next 6 to 12 months. There is some credibility to the theory but it is in no way absolute. Looking at the following chart we can see that the 10yr – 2yr spread theory gives five true indications of a recession and a few false indications.



Source: https://seekingalpha.com/article/4187300-yield-curve-recession-predictor-worry-today

Unfortunately, we only have 10yr -2yr spread information to 1976. Looking at the data for the 10yr – 1yr spread, which goes back to 1953, the theory gives us 10 indications of a recession and a couple of false alarms.

We at Crew believe the current investment environment looks very similar to January of 1995. The spread in 1995 of the 10yr – 2yr was .34% and narrowing just like it is today. If one used the narrowing spread as a timing tool and exited the S&P 500 in January of 1995 the portfolio would have missed out on 225% in gains to the start of the recession in March 2000, see chart below. The miss on gains of the NASDDAQ was much great at 568%.

Source: CCM Market Model

Anecdotally, it looks as though the negative spread theory has some merit. The spread needs to be greater than a -.4% difference of the 10yr – 2yr treasury for approximately a month before the theory become robust. The data set to test the theory is just too small.

*For a full description of the Five Star Wealth Manager Award, including description and award methodology, please follow the link here: https://www.fivestarprofessional.com/wmdisclosures/CINWM18

Sources: JP Morgan, CNBC, The Vanguard Group, Charles Schwab & Co., The Wall Street Journal, Seekingalpha.com

Disclosures:

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Index Definitions:

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

MSCI EME is an Index that captures large and mid cap representation across 24 Emerging Markets (EM) countries*. With 846 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

MSCI EAFE is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

Barclays Aggregate Bond is an index used by bond funds as a benchmark to measure their relative performance. The index includes government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year.

Russell 2000 is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.