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Investment Briefing

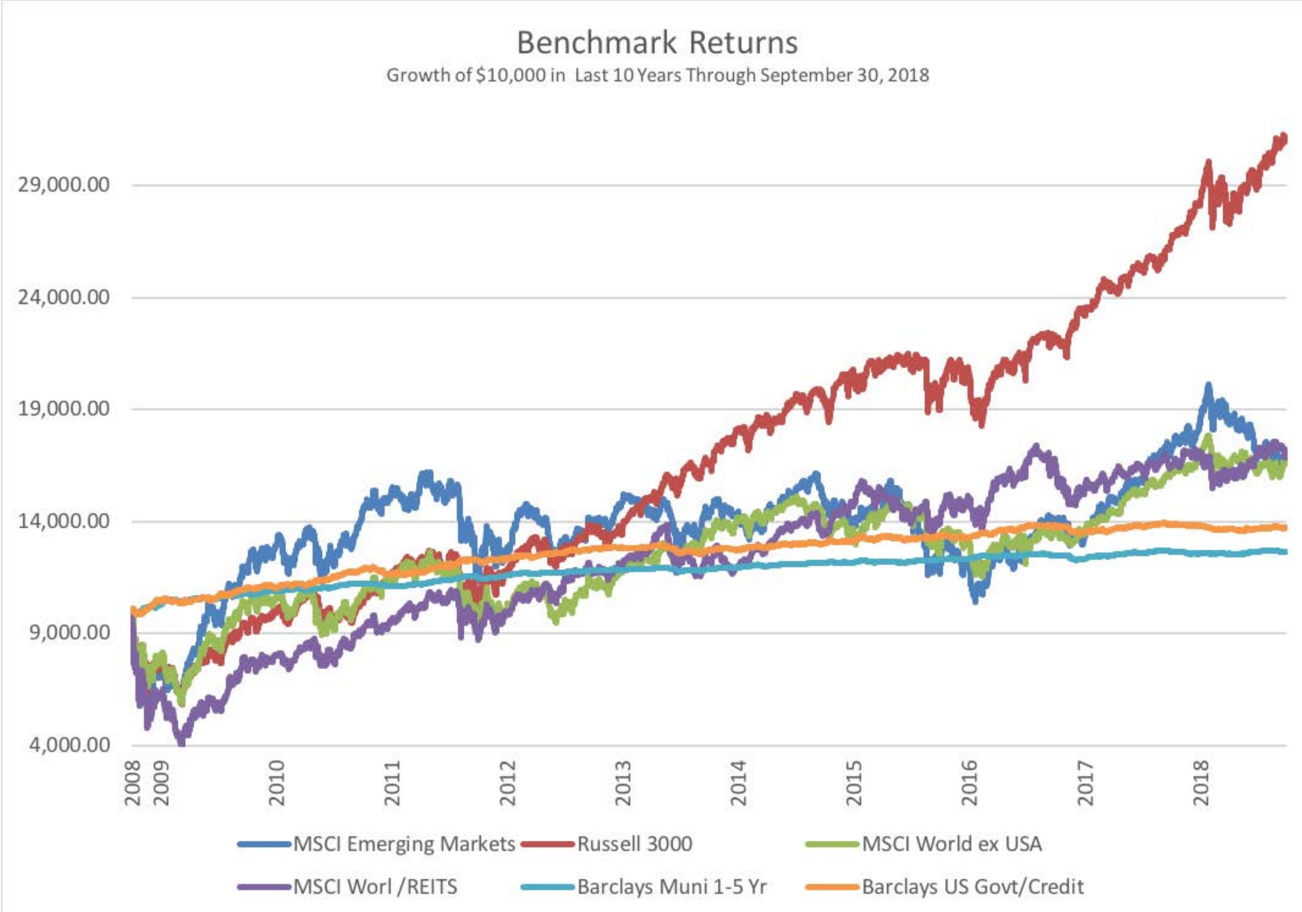
Third Quarter 2018

Introduction

Stocks in the U.S. did well generally, while the rest of the world just muddled through the third quarter.

International developed countries' stocks were up slightly, while emerging market stocks were down slightly. Real estate securities and bonds were mostly flat. Longer-term returns have strongly favored U.S. stocks.

Asset Class[1]	3rd Quarter	12 Months	5 Years (annualized)	10 Years (annualized)
U.S. Stocks (Russell 3000)	7.12%	17.58%	13.46%	12.01%
International Developed (MSCI World ex U.S.)	1.31%	2.67%	4.24%	5.18%
Emerging Markets (MSCI EM)	-1.09%	-0.81%	3.61%	5.40%
Real Estate Investment Trusts (MSCI World REITs)	0.23%	3.18%	6.93%	5.48%
Taxable Bonds (Barclays 1-5 Yr Gov/Credit)	0.06%	-0.61%	0.71%	1.66%
Municipal Bonds (Barclays Muni 1-5 Yr)	-0.12%	-0.11%	1.25%	2.37%

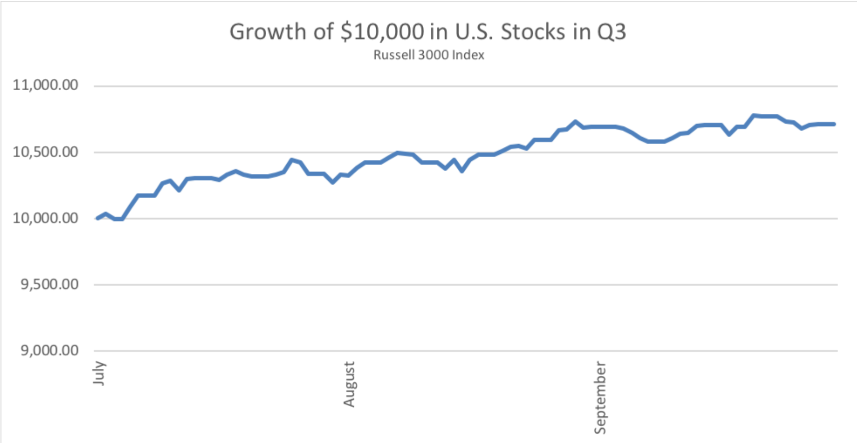


References

1. Return data and charts are from Morningstar Direct.

U.S. Stocks: High Heels

Our strong economy continued its climb and stocks obliged. The quarterly increase in GDP was more than 4%, its best showing since 2014. Unemployment stayed under 4% and corporate profits continued to rise.



But not all was shiny patent leather, ready to party. The technology and communications sectors continued doing well, while small companies' stock prices and value stocks advanced only slightly. In fact, Value is beaten down to the point that Growth stocks now have the same high relative valuations they had back in 2000. The early 2000's eventually proved to be one of Value's best runs. We don't know if that will happen again, although this extreme will probably lessen one way or another.

There were also a number of economic points that could eventually weigh on our economy and on U.S. stock

prices:

- Auto sales cooled in Q3.
- Interest rates continued their climb and the Federal Reserve expects to raise rates once more before the end of the year.
- The price of oil continued to increase and inflation overall has returned to about 3% per year.
- House sales cooled as mortgage interest rates continued to slowly rise.

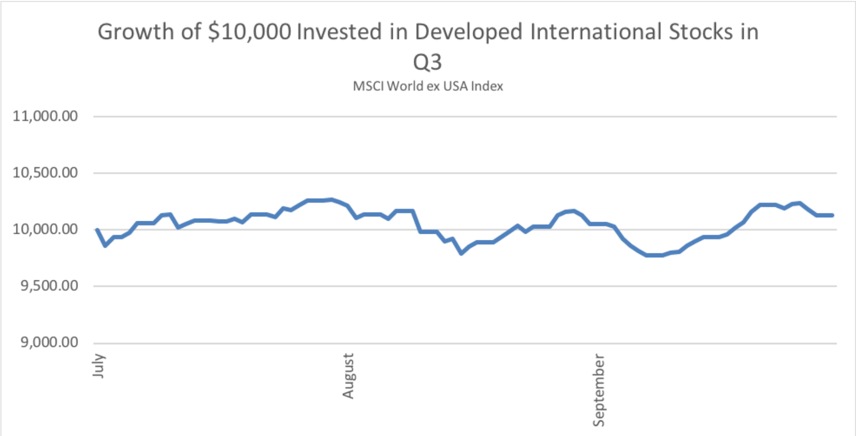
There are many positives for the U.S. economy though, including:

- Low unemployment and continuing healthy job growth,
- Last year's tax cuts are still working their way through the economy, and
- Credit growth remains strong, despite increases in interest rates.

In summary, there are many positive points that could keep our economy and stock market growing nicely. As we know, however, nothing lasts forever and at some time negatives will outweigh positives and the time will come when we see it in our returns. Since we have no way of knowing when that will occur, we will continue our mantra of staying invested for the long term.

International Developed Stocks: Sensible Black Flats

The stocks of international developed countries actually had a good quarter, up about 2% in terms of their local currencies.



However, when we factor in the appreciating dollar/depreciating local currencies effect, our returns drop closer to 1%. The dollar's strength most likely continued for many reasons, including our relatively high interest rates and robust economy.

In general, international economies continued to grow during the period, despite concerns about trade with the U.S. A number of interesting trade events took place during the quarter, including the world's largest trade pact being signed by Japan and the European Union. Germany and China also reiterated their commitment to free trade. Meanwhile, the U.S. threatened new duties

being set on imports of European cars (among other things), but Europe's talks of retaliation seemed to cool that threat.

There were many positive points for international developed markets in Q3, including:

- The UK's jobless rate fell to 4%, its lowest rate in 43 years.
- Germany called for creating a European Monetary Fund that would help better coordinate the EU's economies.
- Australia joined the U.S. and Japan to invest heavily in infrastructure in the Indo-Pacific region to compete with China's Belt and Road Initiative.
- The European Central Bank said it would continue to wind down its stimulus program because of Europe's improving economies.
- In September, the best performing international index (in local currency terms) was Japan's. The consensus view was that a weakened yen is helping Japan's exports and overall economy.
- At the very end of the quarter, Canada finally joined a new free-trade agreement with the U.S. and Mexico.

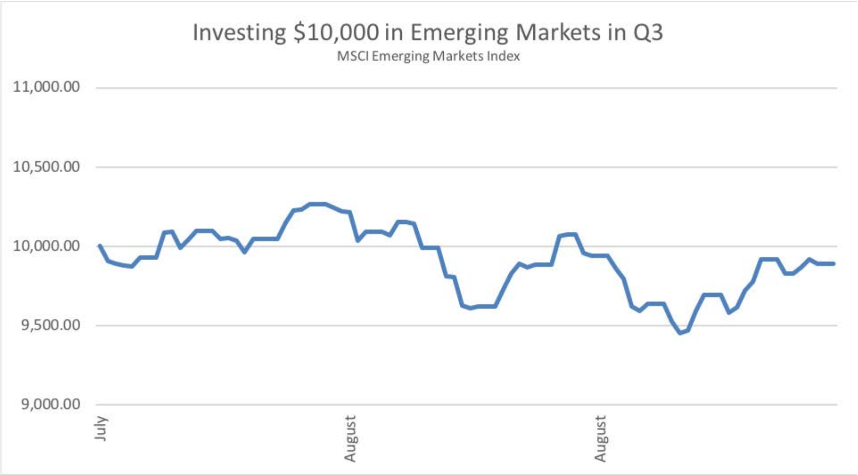
While there seemed to be little in the way of bad news for international markets in Q3, there were a few rumblings:

- Italy struggled with its new populist government.
- France's President Macron faced decreasing popularity after his significant restructuring efforts.
- Orders for products manufactured in Germany decreased by 3%. Trade uncertainties were cited as the cause.

International developed markets continue to be on a slightly different and delayed path when compared to ours. When ours begins to drop, theirs could actually continue to climb for some time given this difference.

Emerging Markets: Ruby Slippers

Emerging Markets struggled with a number of threats in Q3, including increasing interest rates, trade threats, and fluctuating currencies.



The yellow brick road was hard to find. As a result, stock markets were generally down and their currencies were mixed.

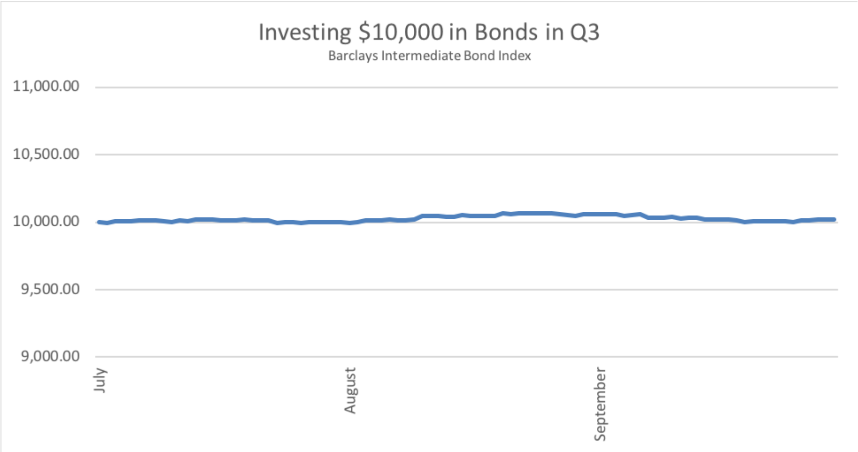
Of course, the largest member of this group is China, whose economy has been slowing, and who is at the brunt of trade disputes with its largest trading partner, the U.S. By the end of the quarter, there were new tariffs placed on about $200 billion of Chinese goods imported to the U.S. and those tariffs are slated to increase in January. China then countered with new tariffs on $60 billion of U.S. goods. With all of this and a generally slowing economy, China's stock market slumped to its lowest level since 2014.

Turning the globe to Europe's emerging economies, the EU completed its bailout payments to Greece with little fanfare. Greece can now tap financial markets for future financing. Turkey's currency fell sharply as inflation accelerated due to generous lending practices by Turkey's banks.

While volatile, emerging markets still have amazing growth prospects as their middle classes continue to grow. The volatility may be illustrated by the fact that in Q3 alone, the best performing stock market was Thailand's, up almost 15% while the worst performing stock market was Turkey's, which was down almost 21%. That volatility is one of the reasons that EM, despite their growth potential, only make up about 11% of the world's stock markets.

Bonds: Sturdy Boots

Given increases in interest rates, which continued throughout Q3, bond returns were mostly flat for the quarter. There were positive returns, but they were generally under 1%.



The Federal Reserve continued their consistency and transparency with one interest rate increase in September, projecting one more increase before year-end, and two increases in 2019. As long as the economy continues to hum along, the market is fully anticipating these increases and they have been priced into securities.

Increasing rates are generally good for bond holders, as long as the rate rises are anticipated and steady. Those increases eventually lead to increased bond yields, which will be valuable going forward. As we said in our bond piece last month, historically 90% of bond returns come from their interest payments and only about 10% from price appreciation when interest rates eventually decline. Keeping those consistent interest receipts in

mind helps when bond values dip (along with the fact that you will eventually receive the bond's principal payment at maturity).

Bond returns in Q3 were slight, but at the end of the day they prove their worth with their relatively consistent yields and low volatility. In a world where stock market returns can vary widely in a short three month period, bonds are the sturdy boots we can depend on when the trails get rocky.

Summary

Just nine months ago, January started the year with a strong performance that quickly turned later in the first quarter. Market returns in Q2 were very mixed, and that mixture has now continued into Q3. Of course, all we can say at this point is that Q4 will undoubtedly be interesting. With our humming economy and the rest of the world mostly struggling through its issues of Brexit, trade, elections, etc., one thing is clear: we must continue to keep a long-term view. And, that long-term view generally should include continuing economic growth which should lead us to positive investment returns over extended periods of time.

As always, we look forward to any questions you may have. Thank you for your trust in Vista.

Your Vista Wealth Management Team

Source of all charts and data: Morningstar Direct
Economic data is from BCA Research, Dow Jones, and The Economist Newspaper Limited.

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