



Quarterly Client Newsletter

3rd QUARTER 2018 REFLECTION BY ALEC BETHURUM SR. PORTFOLIO MANAGER

2018 has, thus far, been most notable for two trends, an increase in short-term domestic interest rates and the performance divergence between domestic equities and foreign developed and emerging market equities. At the end of the quarter, US stocks demonstrated positive momentum on a 1, 3, 6 and 12 month basis while emerging and foreign developed stocks had negative momentum over those same four time windows. This divergence is unprecedented and has never occurred over 50 years of data. To put some numbers behind that statement, US domestic equities were up about 10% YTD, at quarter end, while emerging markets were down 9% and developed foreign was down 4%. While there is some sense behind this divergence, given fiscal stimulus at home, and the strength of the US dollar, we expect these markets to mean revert over time and thus have made modest additions to our emerging market exposure, particularly in our more aggressive accounts.

On the rates front, the long-anticipated increase in domestic rates appears to finally be materializing. With a new Chairman in place the Fed seems determined to slow the flow of the monetary stimulus spigot and has indicated that further quarter point rate increases are coming. As of the writing of this letter we are seeing rates push up against levels last seen during the “taper tantrum” in 2016. Thirty year rates have now pushed easily through 3%. Some effects of these increases are already visible in high-end housing markets. New York City is experiencing broad based price declines for the first time since the Great Recession. Generally, it is a truism that higher rates result in slower economic growth and lower stock prices in the intermediate term. Thus far, the effects of higher rates have been mitigated by the Trump tax cuts but we are on alert in coming quarters for those rate increases to have negative economic ramifications.

Another result, thus far in 2018, has been the weaker performance in some of our “alternative” investments. Like all our investments, when the results appear to diverge from long-term expectations we dig in and determine if the returns are just the normal variability or whether something in the strategies or world has changed and is acting as a catalyst for the results. Long time clients are familiar with our “secular” vs. “cyclical” assessment of downside in individual stocks. Cyclical declines are to be bought, secular to be sold. The same is true in these investments. For the most part, we have determined that the declines in our alternatives are cyclical in nature and have made modest additions to some positions. The one exception is the option selling and volatility strategies which we have determined carry more risk than reward at current levels. As a result, we are in the process of tactically liquidating them.

As we look forward to Q4 the primary focus of markets is likely to be the mid-term elections in early November as well as the trajectory of interest rates. We will address both these topics on our 3Q Conference Call the fourth Tuesday in October.

As always, we thank you for your business and encourage you to reach out to us on any topics of interest.

UPCOMING QUARTERLY INVESTOR CALL

Tuesday, October 23
10am CDT

To register:
816-531-2254 or
info@sterneckcapital.com

MISSION As a fiduciary we commit to excellence and high standards as we deliver tailored portfolios and financial planning to reduce risk, improving the probability of our clients' success.

CORE VALUES Client-Centric Stewardship
Integrity
Excellence
Team Work

GIFTING DONOR-ADVISED FUNDS

The Tax Cuts and Jobs Act signed into law at the end of 2017 has prompted consideration to year-end giving strategies.

Refer to www.sterneckcapital.com, News and Sources section, Planning tab to learn how the "bunching" tax strategy paired with donor-advised funds allows you to consistently support your favorite charities while still enjoying the tax benefits associated with charitable giving.

SCM's ADV

Our ADV has been updated to reflect recent staff changes.

The current ADV version is enclosed. It is also posted at www.sterneckcapital.com with additional hard copies available upon request.

POSITIVE EVOLUTION

BY FRANK STERNECK, CO-FOUNDER & CHIEF INVESTMENT OFFICER

Like all business' and organizations, Sterneck Capital, has, over the years, experienced evolution and change. In some cases, those changes are philosophical in nature. From our beginning, as an absolute return hedge fund, Sterneck Capital has evolved into an investment management and financial planning firm partnering with clients to achieve their short and long-term financial goals. In other cases, the evolution is more tactical. The development of new investment products has provided the opportunity to change how we allocate client assets to achieve more consistent and favorable long-term returns.

During the third quarter, Regan Ervin and Zach Emslie left Sterneck Capital to pursue other interests. Like the other evolutions and changes which have allowed us to broaden and improve our firm's offerings and client outcomes, this too provides us the opportunity to identify additional resources to enhance the firm and your client experience.

In this pursuit, interviews are underway for a candidate with advanced financial planning expertise and strong client-facing skills. I am also pleased to announce Brandie Giffin's promotion to Chief Operating Officer and Chief Compliance Officer. Brandie has over 30 years of experience in Operations with large client facing organizations including Principal Financial Group, Blue Cross Blue Shield and Aetna. She is well prepared to take our operations and client service to the next level. Merrit Kerr also continues to be available to offer client support and expedite administrative needs.

On the investment side of the business, our personnel have not changed. Myself and Alec Bethurum, our Senior Portfolio Manager, will make all investment related decisions. In this area, however, Alec and I will take on more direct client contact. It is clear that more direct contact between you, our clients, and those making investment decisions will allow for greater alignment of your individual goals and needs with the specific investments and allocations in your portfolio. Between Alec and myself we have over 50 years of experience in the markets. In that time, we have experienced every type of "Bull" and "Bear" making us uniquely suited to navigate the markets on your behalf.

As part of my goal to continue to improve and expand our business I plan to spend a considerable amount of time traveling and meeting with many of you in the coming months. These in-person discussions will allow me to get a greater sense of where Sterneck Capital is succeeding and where we can continue to improve. The discussions I've had to date have been quite positive. However, we are not arrogant enough to think there aren't areas where we can improve and provide even better results. With our current cohesive team and pending additional expertise, I have no doubt that an even better future is on the horizon for the firm and our clients.

As we look ahead to the Fourth Quarter we will be focusing on year-end planning and are available to discuss any specific needs. We are appreciative of our on-going partnership with you and wish you an early Happy Holiday Season.