***July 2018***

***SIX MONTH PORTFOLIO REVIEW***

*The first half of the year has been a difficult investment environment, as certain asset classes have posted negative returns.  Our balanced investment portfolio has returned a positive 1% for the six months ending June 30th.*

*Longer duration bonds in a rising interest rate environment present challenges.  Early in the present economic cycle we decided to avoid long term fixed income investments.  Long term bonds posted a negative 6.5% return through June 30th.  Our preference for shorter dated maturities plus the use of preferred stock and inflation adjusted securities enabled our fixed income investments to outperform the broader bond market.*

*Another underperforming asset class was international stocks, returning a negative 3.5%.  Although a necessary diversifier in any asset allocation strategy, the recent trade uncertainty and other political turmoil has adversely effected stocks of foreign companies.  Stocks of emerging market economies have been the biggest laggards amongst overall international stock exposure, due to impending tariffs and China's economic dependence on US exports.  The Shanghai stock exchange, representing the Chinese market, has fallen 15% for the first six months of the year. Our tactical asset allocation model has favored US stocks over international equities, this preference for US stocks has enabled our portfolio to outperform.*

*On the plus side, the S&P 500, representing the largest 500 stocks in the US has returned a positive 2.6% including dividends, through June 30th.  Most notable among US stocks has been the small and mid cap sectors returning 6.2%.  The rising dollar against other major currencies have made goods produced in the US and sold overseas by large US multinationals more expensive, impeding performance of the large caps, while the small and mid caps that derive their profits domestically have outperformed.  Our 1/3 weighting to the small and mid cap sectors enabled our domestic stock portfolio to outperform the S&P 500 large cap sector.*

*Comparing our portfolio performance to Vanguard Funds, the largest provider of mutual funds in the world.  Our portfolio has outperformed each of their 12 Target-Date funds, and each of their 4 Target-Risk funds for the 6 month period ended June 30th. Even legendary investor, Warren Buffett's, Berkshire Hathaway Inc., has posted a negative return of 5.8%, through June 30th. It has been a difficult 6 months, but our balanced investment portfolio has performed as it was designed.  The next 6 months will provide opportunities for investors.*

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