

October 2021



# THE CAPSTONE QUARTERLY

The weather is cooling down and in some parts of the country the leaves are changing. The markets continue their volatile swings as we head into the last quarter of the year. In this newsletter, Bryce discusses the economic uncertainties surrounding the market volatility, and Casey provides some important factors to keep in mind when working with a financial advisor.

## BRYCE'S POINT OF VIEW

Bryce Pease, CFP®

*Chief Investment Officer*

### Economic Uncertainties



As you probably know, volatility has returned to the markets recently. Up to this point in the year, the markets have put most investors in a winning position. The Dow, S&P 500, and NASDAQ all hit record-highs, and then kept climbing. It was only about two months ago that the Dow hit 35,000 for the first time.<sup>1</sup>

Driven by the economic recovery – and the fact that historically low-interest rates make stocks one of the few places investors can earn the kind of returns they need – the stock markets have helped most investors to a lot of wins this year.

But when stock prices rise this high, there comes the point where investors start wondering where things can go from here. They start looking for what could possibly drive the markets higher. If they don't find anything, they wonder if maybe prices aren't a little too high given the economic uncertainties we're facing. It's time like these, when the markets have been on a tear but the threat of a downturn looms, that investors usually have no clear idea of what to do or where to go next. And suddenly, all those economic uncertainties start looking really ominous.

That's why, over the last few weeks, the markets have wobbled back and forth as investors start asking the same question over and over: "When?" As in, when will this incredible run in the stock market end? When will the next correction be? When should we make a move? So, for the rest of this section, let's look at the questions. We'll start by looking at some of those "uncertainties" I

mentioned. Then, we'll discuss our possible moves – and why one move is clearly the superior choice.

At the top of the list of the economic uncertainties is inflation. Anyone who has gone to the grocery store or filled up at the gas station this year knows consumer prices have gone up, sometimes dramatically. That's because with our economy reopening but the supply chains still a mess, demand for consumer goods is far outpacing supply. This inflation makes it harder for businesses to hire new workers, invest in new technologies, or expand to new markets. The result is an economic slowdown at the time our country can least afford it.

The next uncertainty is stagflation. The worry here is that this Delta variant will interrupt global supply lines and it could cut supply even more. This is called stagflation – an increase in inflation combined with a decrease in economic activity. To be clear, we are way off from that, but it's something to keep an eye on.

We know from history there are two times investors must be disciplined: When the markets are up and when the markets are down (read: always!). The best way to deal with uncertainty is not to overreact to it and move blindly. Instead, we will stay disciplined and follow our strategy that helps tell us when it's time to go on offense, and when it is time to go on defense. If our signals indicate it's time to make a move then we'll likely do so... but never simply because the uncertainties are piling up, or because there are more negative headlines than positive ones. For

## Did you know?

Now's the time to begin wrapping up any end-of-year tasks before we all get busy with the holidays and winter season. Here are some things to consider:

- Have you taken your Required Minimum Distribution for the year?
- Are you on track to contribute the maximum amount to your 401(k) or Thrift Savings Plan?
- Were you planning to do a Roth conversion?
- Did you spend your Flexible Spending Account (FSA) dollars?

The end of the year will be here before you know it!

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income rises or falls with the value of client accounts. Second, is we invest our personal money in the same funds, at the same time, and at the same price as our clients do. We share the same goal of increasing income over time while trying to minimize risk in turbulent times. Leadership among various sectors of the market seems to be changing frequently so far this year with many sectors showing negative returns for the year.

Changing the subject - Casey has done several seminars for employees of the U.S. Army this year virtually and more recently on-site. She teaches them about their very complicated employee benefits and other financial planning topics and gets great reviews from the attendees. Last year we finished up a 2-year contract with the U.S. Navy and had the honor of going on site to many of their military facilities in Southern California, including China Lake and also the new home of Top Gun in Nevada.

It's always inspiring for us to see everyone stop and face the flag while the national anthem is played at 8am and again at 5pm. Casey has also been on site for the U.S. Air Force and has taught firefighters with the U.S. Forest service. I bring it up because she never seems to mention it.

As always, thank you for your continued trust in us.

our investment management clients, we will keep monitoring everything on your behalf.

One thing you can be certain of is that we are paying attention. First, because Capstone is fee-based and our

## CASEY'S CORNER

Casey Morris, CFP®

### Know Your Investment Advisor



Do you remember the last time you had to choose a primary care physician? If you're like me, you probably spent quite a bit of time researching and reviewing different doctors trying to choose the best one that would fit your needs. After all, good health is essential in having a quality life.

Why am I telling you this? Well, I've heard horror stories over the years about investors who were working hard to achieve financial independence, only to be taken advantage of by the very person they'd hired to give them good advice.

No two advisors are alike (except Bryce & I, ha!), just as no two people are exactly alike. And sometimes red flags are waving in front of us, but we choose to ignore them. Bernard L Madoff's wealth management business was known for consistent investment returns for its high net-worth clientele, and at one point, Madoff's business was the largest in the world. He seemed reputable, likable and well connected. In 2009, Bernie was involved in a massive Ponzi scheme ultimately losing billions of his clients' assets and earning himself a 150-year prison term. Many of his clients failed to notice the red flags, and unfortunately making smart choices is sometimes easier said than done.

We all want to avoid the Bernie Madoff's of the world; here are a few warning signals that something was not quite right with his company:

- Clients were denied online access to accounts.

- ALL information was conveyed by regular mail.
- The company served as its own broker-dealer. (For reference, typically money is held at securities companies such as TD Ameritrade or Schwab, the trades are placed directly through these companies with statements mailed directly from them.)

Here are also a few signals that might indicate future problems:

- An adviser can't clearly explain how they are paid.
- You feel pressured to work with them or buy a product.
- They guarantee a return, and it also seems too good to be true. Nothing is guaranteed in the stock market and should not be presented as such.
- The adviser is slow to return calls and follow up. Unless the adviser is on vacation, they should not be taking a week to return a call.

In our opinion, some important factors to keep in mind when working with an investment advisor include education, integrity, and trustworthiness. You wouldn't trust a doctor that hasn't passed their medical exam, would you? Educational background is just as important as your gut instinct and being able to trust a professional with your life savings.

At Capstone Pacific, we are fiduciaries. We are ethically and legally bound to act in our client's best interest. When Capstone Pacific was established in 2010, our advisors happily became part of only about 9% of all financial advisors who are legally obligated to do what is in the client's best interest at all times.<sup>2</sup>

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## FINALLY...

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We've added another team member to our office. Please help us welcome Alexandra Mendoza to Capstone Pacific. For those of you that had the opportunity to speak with Jacob Price when you called in, Alexandra will be taking over his administrative position at the company. Jacob was a big help to our company while he was here, and we wish him the best as he focuses on school and a career path he is more passionate about.

Alex is a senior at Cal State Fullerton (which happens to be Casey's alma mater, also) and is in the Business Honors, Titan Capital Management, and Student Managed Investment Fund Programs with a focus on financial planning. We are happy to have her working with us and I'm sure you will find her to be courteous, pleasant, and eager to help you. If you happen to call in and Alex answers, please help us welcome her to Capstone Pacific!

Sincerely,

The Team at Capstone Pacific

P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser's performance, we always appreciate it when you pass on our name.

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- 1 "Dow hits 35,000 for the first time as stocks continue to shine," CNBC, July 14, 2021. <https://www.cbsnews.com/news/dow-jones-today35000-first-time/>
2. [https://www.finra.org/sites/default/files/2018\\_finra\\_industry\\_snapshot.pdf](https://www.finra.org/sites/default/files/2018_finra_industry_snapshot.pdf)