



October 2019

### 3<sup>rd</sup> Quarter 2019 Market Commentary

#### Focus Portfolio Model Updates

1. **Core Stock Model:** In our core stock model, we sold our position in Gentex Corp (GNTX) and bought a position in Pan American Silver Corp (PAAS). There is currently an attractive silver-to-gold ratio and view this position as a hedge against any possible downturn in the broader markets.
2. **Mutual Fund Model:** There were no updates to the mutual fund model last quarter. We continue to maintain a slight underweight in our international exposure and continue to hold shorter duration style bond funds, which are less sensitive to rising or declining rates, on the fixed income side.

#### Quarterly Index Returns

##### Period Ending September 30, 2019

	Annualized Total Returns						Calendar Period Total Returns						
	YTD	1 year	3 year	5 year	7 year	10 year	2018	2017	2016	2015	2014	2013	2012
Dow Jones Industrial Average	17.51%	4.21%	16.44%	12.28%	13.17%	13.56%	-3.48%	28.11%	16.50%	0.21%	10.04%	29.65%	10.24%
NASDAQ Composite Index	21.54%	0.52%	15.88%	13.51%	15.79%	15.49%	-2.84%	29.64%	8.87%	6.96%	14.75%	40.12%	17.45%
S&P 500	20.55%	4.25%	13.39%	10.84%	13.26%	13.24%	-4.38%	21.83%	11.96%	1.38%	13.69%	32.39%	16.00%
Russell 2000	14.18%	-8.89%	8.23%	8.19%	10.43%	11.19%	-11.01%	14.65%	21.31%	-4.41%	4.89%	38.82%	16.35%
MSCI EAFE	12.80%	-1.34%	6.48%	3.27%	6.12%	4.90%	-13.79%	25.03%	1.00%	-0.81%	-4.90%	22.78%	17.32%
Barclays US Aggregate	8.52%	10.30%	2.92%	3.38%	2.72%	3.75%	0.01%	3.54%	2.65%	0.55%	5.97%	-2.02%	4.21%
Barclays Global Agg. Ex-US	4.38%	5.34%	0.43%	0.87%	0.01%	1.27%	-2.15%	10.51%	1.49%	-6.02%	-3.08%	-3.08%	4.09%

Based on U.S. dollars

Source: RBC Wealth Management as of  
September 30, 2019



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**Client FAQs**

Below are a handful of questions we've been fielding frequently from clients over the last few months. We thought it would be helpful to address some of these questions here:

1. **Concerns about a potential recession:** This question has been on the forefront of a lot of minds for the past several months. We would point out that, unfortunately, it's not if, but when the next recession hits the U.S. Historically, an inverted yield curve has been a precursor to a recession, and is typically a leading indicator anywhere from 6 months to 3 years in advance. However, other market indicators are not yet flashing red, indicating it's less likely to see a near-term recession, as shown below. It's important to keep in mind that a recession is a part of the normal business cycle and can be a healthy cleansing process for the overall economy.

**RBC Wealth Management U.S. economic recession scorecard**

Indicator	Status		
Yield curve (10-year to 1-year Treasuries)	–	–	✓
Unemployment claims	✓	–	–
Unemployment rate	✓	–	–
Conference Board Leading Index	✓	–	–
ISM New Orders minus Inventories	–	✓	–
Fed funds rate vs. nominal GDP growth	✓	–	–
	Expansion	Neutral	Recessionary

Source – RBC Wealth Management; economic indicators as noted below

2. **U.S. – China Trade War:** Discussions continue between the world's two largest economies, in a tit-for-tat trade war that began early last summer. To date, this has led to an increase in market volatility, but little in way of tactile progress. We believe that a positive trade agreement will provide a positive boost in the markets, while a negative deal (or prolonged era of tariffs) will do more to undermine returns. In the face of all this trade war uncertainty, however, the U.S. economy has been resilient.

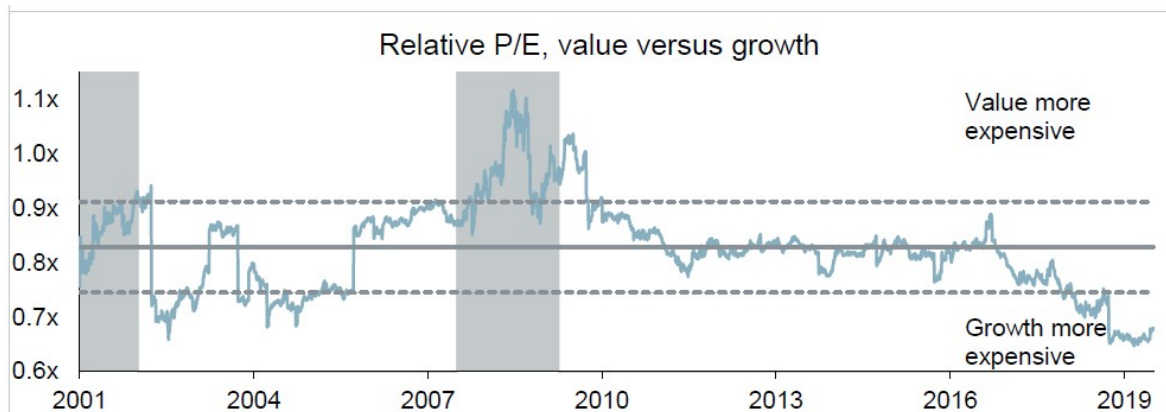


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#### Client FAQs (continued)

- 3. Investment Outlook:** Since the financial crisis of 2008-2009, we have seen the U.S. outperform its international market counterparts. Further, “growth” style stocks have outperformed relative to their “value” style counterparts in our domestic markets. Due to this prolonged period of underperformance in “value” sectors of the markets (a value stock is a stock that trades at a lower price relative to its fundamentals, such as dividends, earnings, or sales) some believe that buying opportunities within this asset class are being created, as valuations have become attractive. The 10 year period of underperformance by both value and international stocks is an extended timeframe, leading to potential opportunities to invest in “cheap” areas of the markets which may outperform in a market decline. Sector and asset class rotation is one part of our investment process, and we continue to monitor these areas for potential investment opportunities.



Source - RBC Wealth Management, Bloomberg; the solid line in the lower panel represents the average, the dotted lines represent +/- 1 standard deviation

#### What is Asset Allocation?

You may have heard the phrase “asset allocation” over the years and may have thought to yourself, “What is that, and why is it important?” In its simplest form, asset allocation is an investment strategy that attempts to balance risk and reward by allocating funds across equity, fixed income, and cash/cash equivalent asset classes.

We use asset allocation in our investment process when deciding which asset classes to invest, such as large cap or small cap, growth or value, or domestic or international. Of course, as with any investment decision, there are tradeoffs and drawbacks. Attached at the end of our newsletter is a piece that helps to illustrate one of those tradeoffs: risk versus reward. This chart shows annualized average returns for various portfolio allocations, ranging from lower risk (high bond allocation relative to stocks) to higher risk (low bond allocation relative to stocks) and goes back to 1926 for historical perspective. With interest rates near historic lows, we feel it’s prudent to temper expectations of average returns by 2.5% - 3.0%, until rates begin to normalize.



**Wealth  
Management**

**Abrahamson Investment Group**  
1250 NW 128<sup>th</sup> Street, Suite 200  
Clive, IA 50325  
Phone: (515) 225-4502  
Toll-Free: (866) 223-8336  
Fax: (515) 225-4550  
[www.abrahamsoninvestmentgroup.com](http://www.abrahamsoninvestmentgroup.com)

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#### **Personal Updates**

Kirk's daughters, Kylie and Laney, were back in August to visit for about a week. They're residing in Denver, Colorado and are business partners together in residential real estate. The girls have a handful of local restaurants that are on their "to-do" list whenever they're back home, and visited Skips, B-Bops, and Centro.

Additionally, Kirk and his wife, Dianna, also checked off one of Kirk's "bucket list" items last month when they had the opportunity to see Mark Knopfler in Nashville, Tennessee. Mark is a well-known guitarist and member of the rock group, Dire Straits, and performed at the Ryman Auditorium in downtown Nashville.

Mike and his dad, Larry, traveled to Dallas, Texas to watch his favorite team, the Kansas City Royals, take on the Texas Rangers. As the Rangers are moving to a new ballpark in Arlington next season, they wanted to revisit one of their favorite major league ballparks before the team moved into Globe Life Field. Unfortunately, the Royals lost both games they took in, but it gave Mike and his dad the opportunity to visit AT&T Field which hosts the Dallas Cowboys. It's currently the largest NFL stadium by capacity.

Colby and his wife, Abby, celebrated 10 years of marriage last month and commemorated the occasion at Proof restaurant downtown Des Moines. They had a 10 course meal specially prepared to celebrate each year of marriage, complete with a wine and beer tasting. Later this month, they'll travel to Italy where they'll spend time with Abby's friend who lives in Tolentino, a small town in north-central Italy located near the Adriatic Sea.

It's hard to believe summer's come and gone. We hope you had a chance to relax and rejuvenate with friends and family.

If there are any questions you would like to see us address in future newsletters or if you have any feedback as to how we can improve this communication, we would love to hear from you! Our hope is to put out a publication that helps to inform and can help answer questions you might have regarding our industry or the markets.

As we prepare for autumn and the holidays, we'd like to pause briefly to reflect and say, "thank you" for choosing to work with our team. If there is anything we can do on our end to help you and your families, please don't hesitate to contact us as your convenience.

Warmest Regards,

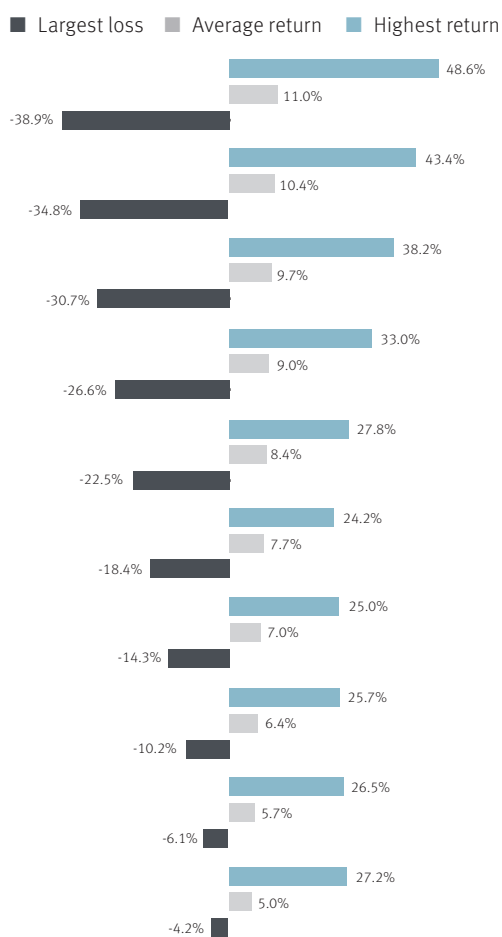
The Abrahamson Investment Group  
-Kirk, Mike, and Colby

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# Risk and reward — asset allocation



Annual return (1926 - 2018) | Average annual inflation: 3.0%



Portfolio	Largest loss	Average loss	Average return	Highest return	Average gain	% positive years	% negative years	% of years > than inflation
<b>90% Stocks 0% Bonds 10% Cash</b>	-38.9%	-11.9%	<b>11.0%</b>	48.6%	19.3%	73.1%	26.9%	68.8%
<b>80% Stocks 10% Bonds 10% Cash</b>	-34.8%	-10.4%	<b>10.4%</b>	43.4%	17.2%	74.2%	25.8%	68.8%
<b>70% Stocks 20% Bonds 10% Cash</b>	-30.7%	-9.8%	<b>9.7%</b>	38.2%	15.0%	77.4%	22.6%	69.9%
<b>60% Stocks 30% Bonds 10% Cash</b>	-26.6%	-7.7%	<b>9.0%</b>	33.0%	13.6%	77.4%	22.6%	71.0%
<b>50% Stocks 40% Bonds 10% Cash</b>	-22.5%	-6.0%	<b>8.4%</b>	27.8%	12.0%	78.5%	21.5%	72.0%
<b>40% Stocks 50% Bonds 10% Cash</b>	-18.4%	-4.5%	<b>7.7%</b>	24.2%	10.4%	80.6%	19.4%	72.0%
<b>30% Stocks 60% Bonds 10% Cash</b>	-14.3%	-3.9%	<b>7.0%</b>	25.0%	8.6%	86.0%	14.0%	71.0%
<b>20% Stocks 70% Bonds 10% Cash</b>	-10.2%	-3.0%	<b>6.4%</b>	25.7%	7.3%	91.4%	8.6%	74.2%
<b>10% Stocks 80% Bonds 10% Cash</b>	-6.1%	-2.7%	<b>5.7%</b>	26.5%	6.2%	94.6%	5.4%	71.0%
<b>0% Stocks 90% Bonds 10% Cash</b>	-4.2%	-1.2%	<b>5.0%</b>	27.2%	5.7%	89.2%	10.8%	52.7%

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