Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE JUNE 2019

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT, CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

MARKET COMMENTARY

Many leading stock indices closed near new highs even after stumbling mid-quarter. The large-cap stocks in the S&P 500 returned 4.30% this quarter bringing their year-to-date return to 18.54% - its best first half of the year return in two decades. Small cap stocks in the Russell 2000 were up 2.10% for the quarter and 16.98% for the year. International stocks of developed markets in the MSCI EAFE had a 3.68% gain this quarter and emerging market stocks posted a return of 0.61% bringing their year-to-date returns to 14.03% and 10.59% respectively. Bond yields continued to decline resulting in the Barclays U.S. Aggregate Bond Index posting a return of 3.08% for the second quarter and 6.11% for the first half of the year.

GDP growth for first quarter was 3.1% benefitting from an inventory buildup and improved trade balance. Economists expect that second quarter growth won't be as strong as these two events are not expected to repeat and consumer spending grew at its slowest rate in a year. J.P. Morgan strategist David Kelly projects second quarter GDP growth to be closer to 1% while long-term GDP growth is expected to be around 2%.

After benefiting from tax reform in 2018, corporate earnings growth was basically flat in the first quarter of 2019. Currently, Zacks is projecting earnings growth to be negative for the second and third quarters before turning positive again in the fourth quarter and into 2020. J.P. Morgan projects full year earnings growth of 5% this year and next. Technology stocks are expected to be a drag while financial stocks are expected to help overall S&P 500 earnings.

The trade war between the United States and China continued through June, as talks between the two nations stalled. However, both Trump and Xi discussed trade, among other issues, at the G-20 Conference in Osaka, Japan at the end of the June. This meeting, which was announced on June 18th, sparked hope for investors and propelled the financial markets to new levels. The U.S. wants China to change the laws and policies that have led to a widening trade balance between the two nations over several years. Chinese officials, however, are reluctant to make any significant revisions to their trade policies. Additionally, China wants all tariffs removed at the time an agreement is reached, while the U.S. wants to phase them away slowly.

At the end of May, President Trump announced that the U.S. would impose a 5% tariff on all Mexican imports if the country did not begin to curb the number of illegal immigrants entering the U.S. The two countries were able to reach an agreement and Trump has said that tariffs have been "indefinitely suspended." Mexico worked quickly with negotiators to reach a deal as the U.S. receives roughly 80% of Mexico's exports.

Geopolitical pressure between the United States and Iran increased in June following the attack on six fuel tankers in the Gulf of Oman and the destruction of an American surveillance drone. President Trump signed orders authorizing new sanctions to be placed on Iran to increase the economic pressure on the country. The act will deny Iranian Supreme Leader Ayatollah Khamenei and his associates access to global financial resources. Additionally, the U.S. has pledged to completely eliminate all imports they receive from the petroleum-rich nation. Oil prices began to rise throughout the month and many analysts believe that this trend could continue as tensions between the United States and Iran persist.

The Federal Reserve held rates steady throughout the month, but began to hint at potential cuts in the future. Federal Reserve Chairman Powell said that the Fed's decision to cut rates will rely heavily upon escalating trade tensions with China and weaker global growth. Many believe that a rate cut in July is increasingly likely, as well as another possibly in September or October. Short-term interest rates currently sit at 2.25%-2.5% and it is widely expected that they could be lowered between a quarter to half of a point. The Fed has faced strong political pressure to cut rates, but they have stated that they will only do so if it is necessary to prolong the current economic expansion (which is now the longest in history). The idea of potential rate cuts excited investors as indexes moved in positive directions following the news. At the end of June, the 10-year U.S. Treasury was yielding 2.00%.

2019 BENCHMARK RATES of RETURN

INDEX	SECOND QUARTER	YTD
S&P 500	4.30%	18.54%
DJIA	3.21%	15.40%
NASDAQ	3.58%	20.66%
Russell 2000	2.10%	16.98%
International	3.68%	14.03%
Fixed Income	3.08%	6.11%

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

ATTENTIVE ♦ TRUSTED ♦ ACCESSIBLE

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET

Although the yield curve remains slightly inverted, most economists do not see an imminent recession especially with talks of a Fed rate cut and an all out trade war likely to be avoided. Still, with stocks near highs, it is an attractive time to reduce exposure if you were looking to move to a lower risk allocation or if current allocations were above targets due to the run-up in stock prices. We continue to recommend diversification across asset classes as a risk management tool. If you have questions about the strategy in your account, please talk with your advisor.

FINANCIAL PLANNING

Saving For Your Child's Education

For many parents, saving for their child's future education is at the forefront of their financial objectives. The cost of a post-secondary education has greatly increased over the last several decades. On average, college tuition costs have increased by 6.4% every year since 1983, with prices doubling every 11 years. According to J.P. Morgan, today it costs approximately $21,400 per year for a public school education, and $48,500 per year for private school. These figures illustrate how education can quickly become one of the largest expenses for families.

Grants and scholarships are one resource that aid in funding a student's education. Although helpful, these awards are typically small, and will only cover a portion of the total cost. Federal financial aid is also available but usually only to low income families. Many students and families have relied on student loans. J.P. Morgan estimates the average amount of debt at graduation is $39,400 for students, and $32,600 for parents.

Recently, stories in the media have focused on student loan debt and its burden on millennials. As election season heats up, some candidates have included student loan forgiveness as part of their platforms. And, others have proposed free or reduced college for all. These ideas, although appealing to many, have no guarantee of actually being enacted into law so we do not suggest relying on this type of legislation passing. Even if it did, there are other educational routes, such as private schools, graduate programs, or for-profit universities, that are not likely to be covered by these policies. We encourage clients to begin saving early for their children's or grandchildren's college education.

There are several vehicles available that can be utilized for college savings. Setting up a custodial account is one way to save. Such accounts can be used to fund a variety of activities besides tuition costs, but it will also impact a students financial aid status. In addition, when the minor becomes an adult, they will have access to this type of account and the tax benefits are limited. A Coverdell Education Savings Account allows for tax-free investing and withdrawals for any level of education. However, funds must be contributed into this account before the recipient turns 18 and all assets must be used by age 30. The maximum annual contribution is only $2,000 but it does have only a low impact on financial aid eligibility. One of the best savings vehicles is a 529 College Savings Plan which allows for tax-free investing and withdrawals for qualified education expenses, high contribution maximums of $400,000 or more per beneficiary, and has a low impact on financial aid eligibility. The contributor can also retain control of the account.

Although it's important, saving for college should never be at the expense of saving to reach your own retirement goals.

QUESTION: What is Modern Monetary Theory?

ANSWER: Modern Monetary Theory, also known as MMT, is an economic concept that says government spending by countries who print their own currency (like the US) are not constrained by the revenues they generate through taxes or other sources. Because such governments are the sole producers of their currency, this theory asserts they can print as much money as needed to fund their policies. Opponents to MMT believe that spending money that you don't have is irresponsible and could lead to rapid inflation occurring from such spending. However, supporters of this theory believe that inflation could be fought through other policy decisions.

With election season right around the corner and presidential debates beginning, some candidates are already looking towards the principles of MMT to fund their proposed policies. Modern Monetary Theory has been argued as a way to fund programs such as universal healthcare, free or reduced secondary education, and the Green New Deal. If it is adopted on a one-time outlay like forgiveness of student loans, it may appear to work initially. However, if it is utilized more widely or for ongoing programs, we may experience the negative consequences that opponents are worried about.

CAMBRIDGE ADVISORS NEWS

It's here! Last quarter, Cambridge Advisors rolled out the first phase of our client portal. In this phase, clients are able to view their balances and security holdings in total and by account. In addition, quarterly reports are available online. If you would like to stop receiving paper copies of your report from Cambridge Advisors, let us know because they are now available online. If you would like access to the client portal, please contact your advisor so we can set up a login and password for you.

We are also happy to announce the hire of our new intern! Jonathan Chinn is a rising senior attending Creighton University where he is studying Finance and Economics. Jonathan is excited to learn more about the role that a financial advisor plays in helping their clients achieve their financial goals while also expanding his knowledge of financial markets. In the future, Jonathan hopes to work in equity research or portfolio management. He is originally from Rush City, Minnesota and hopes to return to the Minneapolis area upon graduation.