

## MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

The major equity indices posted a third consecutive quarter of gains for 2019, but the pace of the advance has slowed. The first quarter's stellar advance was a rebound from the dismal fourth quarter of 2018. Following that sharp first quarter recovery, many economic and geopolitical issues have swayed the market from week to week.

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>YTD</u>
S&P 500	13.6%	4.3%	1.7%	20.6%
Dow Jones Industrials	11.8%	3.2%	1.8%	17.5%
NASDAQ 100	16.9%	4.2%	1.3%	23.4%

As we write this, the U.S. and China have just announced a "Phase 1" compromise on a few small issues in the trade dispute that has dragged on for well over a year. The U.S. will hold off on a scheduled October 15th tariff increase in exchange for China committing to purchases of U.S. agricultural products. A "Phase 2" of negotiations is still to come as many more critical issues such as intellectual property protection of U.S. companies operating in China have yet to be addressed.

The Federal Reserve has been very supportive of the U.S. economic expansion. The Fed reduced short term interest rates in July and September. The Fed has committed to being data dependent in its analysis of the

U.S. economy. Inflation remains in an acceptable range, giving the Fed the ability to ward off the potential negative impact of trade and tariff issues on the economy.

Corporate earnings have, so far, remained positive despite some signs of economic slowing. Earnings for companies in the S&P 500 Index grew 1.6% in the first quarter and 3.2% in the second quarter. In both cases, the expectation going into the earnings reporting season was that earnings would decline year-over-year. The current expectation for third quarter earnings is a decline of 3.2% year/year. Much of the decline is centered in the Energy sector where commodity prices are down year/year. We believe this quarter could also mark a trough in earnings.

Looking ahead, the Fed has meetings scheduled for October 29th/30th and December 10th/11th. The Fed has also recently started a program of repurchasing Treasury bills and conducting term and overnight repurchase operations to maintain financial market liquidity and keep short-term rates in the Fed's current target range of 1.75% to 2.00%.

Our equity holdings are well diversified across sectors. We favor high-quality stocks with a demonstrated track-record of increasing dividends as we believe they are more durable through economic cycles.

	<u>3Q19 Return</u>	<u>YTD Return</u>
S&P 500 Index	1.7%	20.6%
Dow Jones Industrial Average	1.8%	17.5%
NASDAQ 100	1.3%	23.4%
Russell 2000 (Small Cap Index)	-2.4%	14.2%

	<u>3Q19 Return</u>	<u>YTD Return</u>
International Stocks (MSCI ex-US)	-1.5%	9.7%
Aggregate Bond Index	2.0%	7.3%
U.S. Dollar Index	3.4%	3.3%
WTI Crude Oil	-7.5%	19.1%

Sources: S&P Global, Thomson Reuters / YTD Returns through 9/30/2019



## What is Risk Anyway?

Risk is a frequently used term in the financial and investment industries. The context and use of the term has a big impact on investment application.

Risk is thought of as the uncertainty or chance of falling short of an objective, such as an investment return. Statistically, risk is often defined as the volatility, or standard deviation of returns. In this context, large ranges in expected return outcomes present a risk for an investor to achieve a specific return over a given time frame.

Behaviorally, some investors describe risk as the possibility of permanently impairing capital. This happens when investments are liquidated after they have declined in value, locking in losses.

The idea of specific risks become even more nuanced, such as interest rate risk (bond prices declining as interest rates rise), credit risk (a bond issuer not being able to pay their loan obligations), equity risk (price

volatility of stocks), or prepayment risk (mortgage backed investments declining because borrowers pre-pay their loans, often in declining interest rate environments).

All of these risks are important to evaluate when investing for a desired outcome. We view the world through the lens of risk and design strategies that seek to obtain an outcome at a given level of risk. We consider these risks, especially potential for market drawdowns or varying savings and spending rates for private investors, as part of a comprehensive financial plan so as not to take too much risk. If you don't risk more than you can afford to lose— you won't.

We start with identifying and quantifying an objective, and understanding the risks that stand in the way of the preferred outcome. Then we implement risk-appropriate strategies to deliver returns and outcomes that accomplish those objectives.

## Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

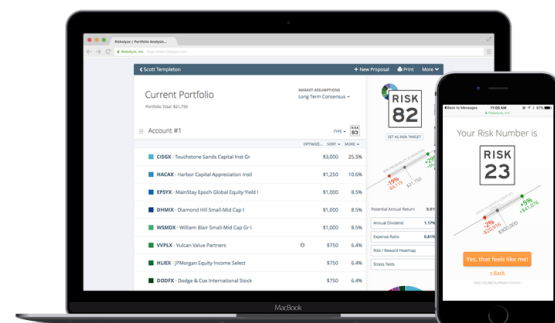
These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One Moderate investor may feel uncomfortable if their portfolio fell 5% while another may not feel uncomfortable until their portfolio falls more than 10%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and wondering why they are not able to achieve the returns they want.

We work with our clients to identify the risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Follow this link to take our complimentary [risk analysis questionnaire](#).



# BUSINESS RETIREMENT PLANS

By ALAN J. CONNER, CPFA



## Business Planning for 2020

As small business owners plan for 2020, there is the constant battle of how to spend the precious dollars you have. You can reinvest in the business to expand by hiring additional employees or purchasing new equipment, or you can opt to pay yourself. Regardless of the position you are in, or the choice you make, you want to get the maximum benefit for the funds you are spending.

### No Employees? Pay yourself first

If you have no employees, it is not too late to build retirement assets while still reducing your 2019 tax bill. Individual business owners can fund a solo 401k prior to the end of 2019 or fund a SEP-IRA any time prior to filing a 2019 business tax return, including extensions. You can contribute up to \$56,000 and in some cases more. The most important aspect is to plan this now. Procrastination can cost you when you file your taxes.

### Reward your Employees

If you have employees, but do not have an existing 401k plan, it is now too late to establish one for 2019 that will enable you as the business owner to fully contribute. What you can do is establish a profit sharing plan that can reward the employees you have and make a contribution for yourself in the process. You can then make some subtle changes to the plan in 2020 that will enable you as the business owner to fully participate. These changes will enable you to fall within the "Safe-Harbor" status, allowing you, the business owner, to fully contribute.

### Attracting Quality Employees

We often talk to business owners that want to structure a comprehensive benefit package so that they can attract top talent to their organization. In a tight labor market, employee benefits are most often the determining factor for a prospective employee. For the business owner, this creates a fine line between what you can afford to offer and what you need to offer.

The employees businesses are wanting to attract can often fall into the category of Highly Compensated Employees (HCE). In IRS terms, this means they earn more than

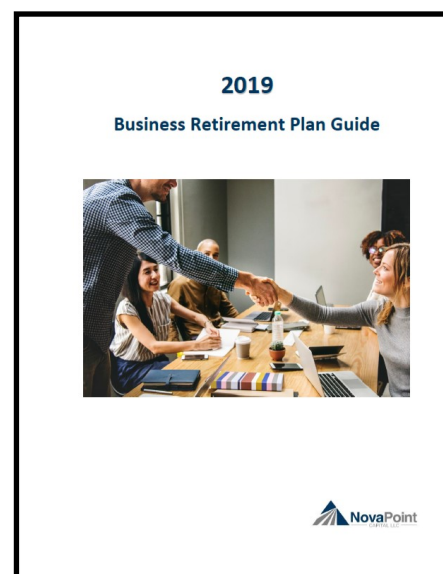
\$120,000 per year. This could require the new plan to fall within the "Safe Harbor" status in order for HCE's not to have contributions refunded when anti-discrimination testing is completed.

### What is "Safe Harbor"?

"Safe Harbor" 401k plans remove the anti-discriminating testing that limits the amount that can be contributed by highly compensated employees.

Before simply establishing a "Safe Harbor" plan, or any business retirement plan, the business owner must first establish how much the company is able to contribute, and if the company has the ability to abide by all of the obligations the plan will require.

If you are a business owner and want to discuss the various options available to you and your company, we are here to help.



[DOWNLOAD THE GUIDE HERE](#)



## Easy Potato Bacon Soup

### Ingredients

- 1 tsp olive oil
- 1/2 cup chopped bacon
- 2 lbs potatoes, peeled and cut into 1-inch cubes
- 12 ounces frozen sweet corn
- 4 cups chicken stock
- 1 cup heavy cream
- Salt and pepper, to taste
- Fresh parsley, chopped

### Directions

Heat olive oil in a pot over medium-high heat. Fry the chopped bacon until crispy and set aside.

Add in the potatoes and frozen corn into the bacon fat and fry for one minute, stirring constantly.

Add chicken stock, bring to a boil, and cook for 15 minutes or until the potatoes are cooked. Stir occasionally.

Reduce the heat and stir in heavy cream. Season with salt and pepper. Cook for an

additional minute.

Use a hand-held blender and puree the soup but only until about half the ingredients are pureed. The soup should be a bit chunky.

Serve with parsley and the bacon crumbled on top.



Source:  
Plated Cravings

## NovaPoint Receives Bull and Bear Master Award

NovaPoint Capital has been awarded a PSN Top Guns distinction by Informa Financial Intelligence's PSN manager database, North America's longest running database of investment managers.

NovaPoint was honored with the Bull Bear Master designation for its Large Cap Dividend Growth Strategy for the three-year period ending June 30, 2019.

The Bull and Bear Master designation is for investment strategies with an r-squared of 0.80 or greater relative to the style benchmark for a three-year period. Moreover, products must have an upside market capture over 100 and a downside

market capture less than 100 relative to the style benchmark. The top ten ratios of Upside Capture Ratio over Downside Capture Ratio become the PSN Bull & Bear Masters.



## Follow our Weekly Blog Posts

Each Monday, we publish a report on the NovaPoint Capital website blog highlighting important financial and investment issues for the week. We also have our Dissecting Headlines section where we dive deeper to explain what some of the

news headlines mean in an investment context. You can find the blog on the website on the News dropdown menu or at <https://novapointcapital.com/blog/>



Visit our website: [www.novapointcapital.com](http://www.novapointcapital.com)

### Our Team

Alan J. Conner, CPFA - President  
aconner@novapointcapital.com  
404-596-8935

Jeffery V. Wright, CFA - Managing Director / Portfolio Manager  
jwright@novapointcapital.com  
404-445-8334

Joseph Sroka, CFA, CMT - Chief Investment Officer  
jsroka@novapointcapital.com  
404-941-8910

Frederick Wright, CFA - Managing Director / Portfolio Manager  
fwright@novapointcapital.com  
404-920-8574