EDELMAN map managed asset program

Dear Client:

The year is already half over, but by looking at the performance of the stock and bond markets, you'd think it was the first day of the year. Through Monday, June 25, the Dow Jones Industrial Average was at a virtual standstill. In fact, it's down 1.9 percent so far this year — meaning, someone who invested $100 on Jan. 1 has an account value of $98.10.

Can you say, "treading water"?

Even though the index's returns since Jan. 1 have essentially been flat, you'd be forgiven if you felt it was worse. That's because the market started the year with a bang, rising 5.8 percent in the first month — and then giving it back and more ever since.

Indeed, the Dow hit an all-time high on Jan. 26 — and since then, the Dow has fallen 8.9 percent. So, if you've looked at your account statements at any time over the past five months, you've probably been disappointed — especially since last year's returns (and the last nine years', for that matter) have been strong by comparison.

It gets worse. Not only has the U.S. stock market been performing poorly this year, so has the bond market. The Barclays Capital U.S. Aggregate Bond Index is down about 2 percent year-to-date. So, both stocks *and* bonds are down this year.

Foreign stock markets are down, too, as measured by the MSCI EAFE (Europe, Australasia and the Far East) Index: It's down nearly 5 percent. Intermediate-term bonds (those with five- to 10-year maturities) are down 3 percent. The price of silver is down 3 percent and gold is down 2.1 percent. Bitcoin is down 55 percent.

What do these flat-to-negative returns really mean? Is your portfolio going to fall further in value? Are we about to experience another crisis like 2008?

We don't think so. The evidence shows that the U.S. economy is strong. For example:

- More Americans than ever before are working. Data from the Department of Labor (DOL) shows that unemployment fell in May to 3.8 percent, the lowest since 1973. The economy added jobs in virtually every sector of the economy — retail, health care, construction, professional and technical services, manufacturing and mining — and unemployment rates are projected to remain low for another three years.
- Not only are more people working, but they're making more money than ever, too. DOL says the average hourly earnings of 82 percent of the people working in the private sector rose nearly 3 percent over the last year. That's the biggest advance since 2009.
- And it's not just employees who are doing well. Reuters reports that employers are doing great too: 78 percent of the companies listed in the S&P 500 stock index earned even more money in the first three months of the year than analysts expected. Indeed, first-quarter earnings increased 27 percent over last year.

Perhaps best of all, total household wealth across the country now exceeds $100 trillion, according to the Federal Reserve. No wonder, then, that consumers are feeling good about their pocketbooks. In fact, the June University of Michigan Consumer Sentiment Index is near an all-time high.

Guess what happens when people are feeling good about their finances? They buy stuff:

- Consumer spending and retail sales rose in May to the highest level in six months, according to the Commerce Department. Overall sales grew twice as much as expected by economists, bolstering expectations for further acceleration in economic growth.
- Auto sales are exceeding expectations. Five of the biggest U.S. automakers beat estimates, according to WardsAuto. Even gasoline above $3 a gallon couldn't stop the frenzy. Ford reported the strongest May in 18 years for its F-series trucks and Fiat Chrysler's Jeep sport utility vehicle surged 29 percent.

Gas prices haven't slowed down car buying, nor have higher interest rates slowed down home buying. According to the National Association of Realtors, in May, new home sales were up 14.1 percent compared to a year ago.

So, let's add it all up: More people have more money than ever. Having more money means they can spend more. More spending means corporations enjoy higher sales, which produces more revenue. More revenue leads to more profits and more profits result in higher stock prices.

Therefore, we aren't concerned that the stock market has been flat so far this year. Stock prices have been rising almost nonstop for more than nine years, so a lull is to be expected.

So, if we should not conclude that stock prices are worrisome, what *should* we conclude?

There are two important conclusions for you. The first is the importance of diversification. An excellent illustration is brought to us by the Dow itself. As mentioned, it's been flat this year. But one of the index's 30 stocks is General Electric — and GE's stock price has fallen 27 percent so far this year, to its lowest price since 2009. Adding insult to injury, the folks who manage the Dow just booted it out of the index.

General Electric is 126 years old and was the last original member of the Dow when the benchmark was formed in 1896 (along with Distilling & Cattle Feeding Company; National Lead Company; Tennessee Coal, Iron and Railroad Company; and United States Rubber Company). Once the world's most valuable company, its business activities range from aircraft engine manufacturing to owning the NBC television network. GE has 313,000 employees and owns 67,000 patents — clearly, it has epitomized success as a 20th century company, but has struggled to maintain prominence in the 21st century.

The company is a perfect example of the dangers of (a) owning individual stocks and (b) investing in strategies simply because they were successful in the past. As S&P Dow Jones, the creator of the Dow Jones Industrial Average, said, "The U.S. economy has changed. Consumer, finance, health care and technology companies are more prominent today and the relative importance of industrial companies [like GE] is less."

EDELMAN map managed asset program

Another excellent demonstration of the importance of diversification is found in … wheat. Its price has gained 15 percent so far this year. Oil is another example — the price of spot crude is up 12 percent. We doubt, back in January, that any of our clients would have said that the place to invest for the next six months would be wheat or oil.

The performance of these two assets remind us that, in any given time period, you can usually find some asset that is rising while others are falling. That's why owning a wide array of asset classes and market sectors is so important. If you owned only GE stock, you'd be down 27 percent. But by owning GE as part of the Dow, you'd be down only 1.9 percent.

The second lesson, of course, is to maintain a long-term time horizon. When people comment on the fact that the stock and bond markets have been languishing for the past six months, my response is usually, "Six *whole* months? Golly."

I'm willing to bet that you can't remember what you were worried about six months ago. And six months from now, you'll have long forgotten about whatever it is that's worrying you presently.

So, let's focus instead on the long-term. That means reminding ourselves why we invested. If you've not revisited your overall financial plan in some time, now might be a great time to do so. Reviewing your financial goals and making sure your investments still match those goals will provide you reassurance during these interesting times we live in. Additionally, making sure all the other elements of your financial plan are up to date and well-coordinated is always a good idea. We are here to provide assistance as needed.

So, if you're getting upset when looking at your monthly statements, stop looking. When there's something worth paying attention to, you can be sure we'll tell you. In the meantime, please enjoy the summer and the upcoming Independence Day celebrations, with our offer to meet with you for a checkup or an update when you are ready.

Thank you for the privilege of serving you!

Ric Edelman
Founder and Executive Chairman

P.S. We are available to help your friends and family who may need financial advice. Have your loved one reach out to your planner, and we will do what's necessary to help them as we have helped you.

Advisory services offered through Edelman Financial Services, LLC. Securities offered through EF Legacy Securities, LLC, an affiliated broker/dealer, member FINRA/SIPC. Life, long-term disability, long-term care or other nonvariable insurance products offered through EFS and Edelman Insurance Services LLC in California, license no. 0G00750. Variable insurance products offered through EFLS and EF Legacy Insurance Agency LLC in California, license no. 0L01472.

An index is a portfolio of specific securities (common examples are the S&P, DJIA, NASDAQ), the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. Past performance does not guarantee future results.

Investing strategies, such as asset allocation, diversification, or rebalancing, do not assure or guarantee better performance and cannot eliminate the risk of investment losses. All investments have inherent risks, including loss of principal. There are no guarantees that a portfolio employing these or any other strategy will outperform a portfolio that does not engage in such strategies. Past performance does not guarantee future results.