October 10, 2018

McDAVID
&
COMPANY
Wealth Management Services

Registered Investment Advisor

We don't know about you, but there are days when we envision getting far away from the New York Times and the Wall Street Journal and all the disquieting things they report on each day. Fortunately, and we've mentioned this before, the economy and the various capital markets don't rely solely on what's happening in Washington. As Will Rogers reminded us so many years ago: *"This country has gotten where it is in spite of politics, not by the aid of it. That we have carried as much political bunk as we have and still survived shows we are a super nation."*

We could substitute "economy" for "country" and really not be far off. It is all of us that paint the broad economic picture and, for the most part, we're all going to keep on doing what we do, creating value in our workplace and purchasing the goods and services we need to take care of our families and secure our wellbeing.

Over the last several letters, we've talked about the twin themes of interest rate increases and tariffs, set against the backdrop of the continuing period of economic expansion we've found ourselves in over this last nine years. The Federal Reserve announced another rate increase last week, the 8th since the recovery began in the spring of 2009. The pace of interest rate increases has been deliberate and measured and this has done much to take the sting and surprise out of climbing rates. While we will see these rate increases ripple through the economy in a number of areas, this process has been much anticipated and has not seemingly contributed to stock market volatility in the same way that rate increases have done in the past.

These rate increases are a two-edged sword for bonds in your portfolio. Rate increases tend to make the value of bonds drop a bit, but at the same time those higher rates will eventually appear in the increasing dividend yield of bond funds. The near-term lackluster performance in various sorts of bonds will tend to be offset over time by these higher yields.

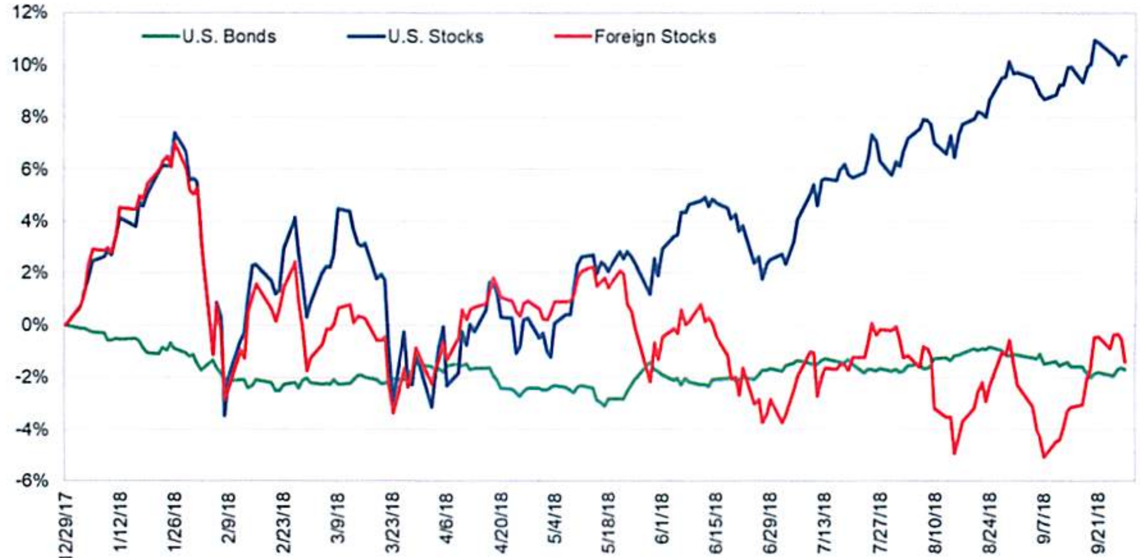
The much ballyhooed tariffs are a horse of a different color. Tariffs end up being very similar to a tax increase, essentially raising the price of goods that are affected by the particular tariffs. While it is hard to say exactly what sort of damage or benefit will come from these actions, we tend to agree with many mainstream economists that they will have a dampening affect overall on the broader economy and inject non-market inputs into the global trade equation. This, of course, can create winners and losers, not based on competition but rather at the whim of one government or another. We've seen this play out so far in some predictable and some not so predictable ways. Stay tuned on this one; we'll all be watching to see how this continues to play out over the months ahead.

October 10, 2018

Away from the lofty corridors of power and privilege, Main Street keeps on humming. Continued earnings growth has had a beneficial effect on equity valuations as stocks have spent part of the year "growing into" the prices set by the market rally of last year. Nonetheless, we've seen substantial returns in US stocks of all sorts so far this year. International issues have had a much tougher time with prices in emerging markets falling into bear market territory and the strong dollar hurting returns on international investments to US investors.

Looking forward, many expect earnings to continue to grow, perhaps not as fast as they did in 2017, but at a desirable pace nonetheless. In a nutshell, growing earnings could translate into higher stock prices and so this, the most distrusted bull market in recent memory, might just continue for another round or two. Seemingly, there is no sign of recession on the horizon as yet, and we might just see another year or so of growing incomes and reasonable market returns.

Year-to-Date Performance Ending 9/30/18
(Exchange-traded fund data used as a proxy for index performance. Source: Yahoo! Finance.)



We're barely into the fourth quarter, and if the first few days are any indication, we can expect heightened volatility in the remaining months of the year. Fed announcements, interest rates, political uncertainty, tariffs, global threats are just a few of the things that have the markets jumping. One of the headlines today was "Dow Stock Index Sinks 3 Percent as Tech Stocks Decline." While we expect and are prepared for continued volatility, a good reminder that investing for the long term requires careful deliberation on market-related headlines (not knee-jerk reactions) and continued focus on the critical factors that ultimately determine economic expansions vs. recessions, and rising vs. falling stock, bond and commodity markets.

To that point, while they do not receive a lot of media coverage, there are multiple, important positive factors underpinning the stock market and the U.S. economy, including: Robust economic growth, rising corporate earnings, solid consumer spending and a very strong labor market.

October 10, 2018

As long as those positive fundamentals remain in place, headline-induced volatility, whether trade or politically inspired, will likely continue to be a temporary headwind on stocks, but not something that will end this near-decade-long economic recovery.

Shifting political policies, temporary corrections, volatility, and short-term events are unlikely to alter a diversified approach set up to meet your long-term investment goals.

Given current conditions, it seems prudent to expect continued good things while at the same time making sure we are prepared for a pullback. Overall allocations along with cash reserves and the timing of larger outlays are important to this preparation in your portfolio. Planning is the key, and we're available to meet with you at most any time to review your portfolio.

We hope the rest of this year is rewarding for you and your family and that you get to enjoy the best of what autumn has to offer.

We hope you find the information in this newsletter useful, and always welcome your feedback.

Best regards,

McDAVID
&
COMPANY
Wealth Management Services

Registered Investment Advisor

William F. McDavid

Managing Shareholder

4711 NW 53rd Avenue | Gainesville, FL 32653
Phone: (352) 373-1080 | Fax: (352) 373-5110
www.mcdavidco.com

"In Washington, one man could do what ten of them do.
There could be only a quarter or a third as many congressmen or senators,
and we would pick better ones then. But it's the system that we have always used,
and there is no use getting all overcome with perspiration over it.
Things kind of run themselves, anyhow." - Will Rogers