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Model adjustments for 3rd Quarter 2018

We're approaching the beginning of the third quarter. It is time for all qualified accounts (Individual Retirement Accounts, Roth IRAs, etc.) that are invested in our DD-WM exchange traded funds models for their quarterly rebalance. The team has been concerned with the market action of the past two months – the tariff discussions, the flattening of the yield curve, the FOMC's announcement of a fourth interest rate hike this calendar year, slowing consumer spending (and with all of these factors, a potential slowdown in the economy).

While we don't know if a contraction of the economy is imminent, this much we do know: the market HATES uncertainty. Throw in the mid-term elections, and the uncertainty factor is certainly rising.

Consequently, the team feels that it is prudent to scale back on equity risk for the coming quarter.

Our plan for scaling back is simple. If you were, say, an 80% equity – 20% fixed income investor, we will move you back to 70-30 when we rebalance during the first week of July. If you were 60-40, you'll be 50-50. And so on.

There are two exceptions to be made to this rule. If you were in an all-equity model, we'll leave things be, as you likely have your fixed income element in another account. And if you recently submitted a Riskalyze® questionnaire that indicated we should be adding to your equity portion, we will leave you in the model in which you're currently invested.

You may ask yourself, "why just a 10% reduction?" Again, it's uncertainty. Presidents Trump and Xi could suddenly announce that they've come to an agreement which eliminates all the tariff talk, and up go the markets. Fed Chairman Powell could reconsider his plans and announce that we'll only have one more rate increase in 2018, and up go the markets. Any number of things could happen to bolster the historically light summer markets in a positive manner – we don't want to completely miss out.

The second part of the plan is to return your portfolio to its current balance (in other words, add the 10% of equities back) when we rebalance for the fourth quarter in early October. Why? Historically, markets rally late in the year, and especially after an election. We should add that it won't matter who wins the election – it simply reduces the uncertainty that the markets dislike. And the markets seem to favor Congressional gridlock, so a change in either the House or the Senate might actually be positive for equities.

All this being said – if you have concerns, one way or the other – please know that Barbara, Bill, and Matthew are always available to talk.

We hope you have a wonderful Independence Day holiday!

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