Volatility Returns

"Ball of Confusion, that's what the world is today. Hey, hey." – Whitfield and Strong

These lyrics, written 50 years ago, could just as easily describe the world today. All the topics covered in the song, as sung by The Temptations, still resonate: divisive politics, kids growin' up too soon, taxes, big government, fast moving trends in pop culture, hippies movin' to the hills… well, maybe not that last one.

Trying to navigate the ups, downs, and whipsaws can be challenging. Every day brings a new tweet and headline to which the media and markets react. Further, interest rates have fallen back to historically low levels - punishing savers, and rewarding borrowers.

The recent drivers of short-term volatility in the market continue to be trade (tariffs) with China, and questions about what the Federal Reserve (the Fed) will do with short-term interest rates. During the month of May stocks declined and bonds rose as worries about tariffs and declining global growth moved to the forefront again.

As of June 4th, the Federal Reserve has linked the issues by implying that any economic slowdown due to higher tariffs, *on Mexico this time*, would be mitigated by the lowering of interest rates. Stocks have rallied almost 3% on that suggestion. (One of our clients called it the "Powell Pop" giving credit to Fed chairman Jerome Powell.) The dual mandate of the Fed is to promote maximum employment and stable prices, not to backstop tariff policy as punishment. Recall, we finalized a trade agreement with Mexico last fall to replace NAFTA, and new tariffs would contradict that deal. Nevertheless, the market likes it. The consensus is that the various trade/border disputes with China and Mexico will get settled… eventually, and industries and consumers will adjust accordingly. But getting to a trade agreement with China by way of on-and-off again meetings, tariffs (threats and real), tweets, speeches, etc. will continue to produce a volatile market. The situation with Mexico will hopefully resolve more quickly as tariffs are slated for June 10th. It's anyone's guess what will happen over the next few days. The border issue is a little more complicated since we do have a new trade deal with Mexico, and we're talking about a country, and people, that are on our doorstep. If we had to venture a guess, it might be that Mexico will state they'll make some concession on the border issue, and President Trump will waive the proposed tariffs and sing praises of the new deal.

At Fireside Capital Advisors we're constantly watching these developments and considering the possible outcomes. We don't have a crystal ball, but we can mitigate risk in portfolios by making prudent decisions when it comes to allocating between long-term bonds vs. short-term bonds, for example. In an environment that no longer rewards the longer maturities, we have a bias toward short-term fixed income. In equities, we think there is more risk overseas due to the trade battles; however, international stocks have much better valuations than U.S. stocks. Therefore, we have some exposure to foreign stocks, but are keeping the allocation lower than it otherwise would be based on valuation alone. And, as always, we monitor the active managers for performance and to ensure they are not deviating from their investment philosophy.

Fireside Capital Operations Update

Steve and I have been back together for just over five months now, and the merger of SpringVest Wealth Management into Fireside Capital Advisors has been virtually seamless. Software, email, and other technology have all been combined; and, we continually look at new technology offerings to improve and keep moving forward. We are in our new office (across the hall from Fireside's old office) in the Signature Exchange building just south of Belt Line Rd. on Preston Rd. For those of you in Dallas that haven't had a meeting in our new space, we'd love to have you come by. And to our many clients outside of Dallas, if you're ever in town please let us know.

We have been blessed to have the support of all our clients during this transition. Thank you!

Tim Dwight, CFA
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Index Performance (as of 5/31/2019)

	One Month	Year-to-date
Global Stocks	-6.10%	9.20%
U.S. Stocks	-6.40%	10.80%
International Stocks	-5.50%	7.30%
U.S. Bonds	1.90%	4.70%

Interest Rates (as of 5/31/2019)

	Yield	6-Month change
2-Year Treasury	2.00%	-0.80%
10-Year Treasury	2.10%	-0.90%

Global stocks are represented by the iShares MSCI ACWI ETF (ACWI) which tracks an index covering approximately 85% of the global investable equity opportunity set. The United States makes up roughly 55% of the index, 35% is from developed international markets, while 10% is based on emerging market equity.

U.S. stocks are represented by the iShares Russell 3000 ETF (IWV) which tracks the Russell 3000 index. This index includes large, mid, and small companies in the United States. Approximately 23% of the index is made up of mid and small-cap companies.

International (non-U.S.) stocks are represented by the Vanguard FTSE All-World ex-US Index Fund ETF (VEU). This ETF covers both developed (80%) and emerging (20%) international markets. Further, it includes both large and mid-size companies.

U.S. bonds are represented by the iShares Core U.S. Aggregate bond ETF (AGG). This ETF tracks the Bloomberg Barclays U.S. Aggregate Bond Index replicating the composition of the investment-grade U.S. bond market. Approximately 45% of the index is derived from government bonds, 25% from corporate bonds, and 26% from agency mortgage bonds.