MONTAG

Viewpoints

SECOND QUARTER 2018

SUMMER, AND THE MONTAG NORTH OFFICE– *Ned & John Montag*

"But the Wi-Fi kept cutting out. The only choice they had left was to unplug the router, wait 10 seconds, and THEN PLUG IT BACK IN!"

At the beginning of summer when we were growing up, our mom and dad sent us to summer camp. It wasn't just a camp around the corner, though. It was a camp not in Atlanta, not in Georgia, not even in the south. The camp was in Wisconsin, and dad would always drive us up. Back then, he would joke as he left the office that folks could reach him at the "Montag North Office" which was his clever code for "road trip to camp." Now that we're older with kids of our own, we do the same thing and drive our kids to various camps up north. The only difference is, that in this day and age with smartphones we really ARE reachable at the Montag North Office when you need us!

All this to say, as you look forward to your own summer plans, remember that no matter which "office" we are in, we are here for our clients, friends and family. Thank you all, and enjoy this new edition of *VIEWPOINTS*! M

Inside This Issue

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MARKET OBSERVATIONS – *John Montag, Chief Investment Officer*

Volatility's Second Act

Since the precipitous fall in the markets during the first quarter, the major indices were able to eke out some gains in the second quarter albeit with some big swings down (in April) and up (in June). The S&P 500 was up 3.43% for the second quarter, the DOW was up 1.26% and the tech-heavy NASDAQ roared up 6.61%. Year to date, the performance of these three indices is 2.65%, -0.73%, and 9.37%, respectively.

International focus

A lot of what happened in (or to) our domestic markets had an international flavor to it in the second quarter.

First, the ongoing rhetoric between our administration and China over trade continues. The markets react swiftly and definitively as a trade war becomes more (or less) likely by the day. Indeed, three of our largest one-day market moves for the quarter coincided with news that tariffs would be applied to Chinese goods, or Chinese tariffs would be applied to U.S. goods, or that the President would NOT impose tariffs after all. While the administration's stance on this is far from over, it is clear that the markets will be subject to more turbulence until we get a more clear answer.

Second, even though Brexit is an old story (and still will take a while to be realized), things in Europe can and will influence our markets. For example, in May Italy's President vetoed the selection of an anti-euro finance minister. Implicit in this action is the view Italy feels less certain about staying in the European Union (EU) and may elect to withdraw from the EU and punt on the euro. When the sovereignty (and therefore credibility) of a nation becomes more ambiguous as would be the case here, bonds become less of a safe harbor and people may move away from them.

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That was true for Italian bonds, as prices went down and 10 year Italian bond yields jumped to near 3%, which actually exceeded the U.S. 10-year Treasury yield. The selloff in the markets in Europe were joined by a selloff in the U.S. because with two intertwined economies like the U.S. and Europe, fears of a global slowdown affect our domestic markets just as much as their own markets.

Bond markets

As we've noted in past *Viewpoints*, bond yields, as measured by the 10 Year Treasury Yield, had a long, slow climb up to 3% from its nadir of 2.05% in September of 2017. The rise in yields, across the board for fixed income instruments and even money market funds, has been a positive development for the bond market and here at MONTAG, **we've even talked about the viability of a cash management approach for folks who have large cash balances, because there was extra yield to pick up.** However as we noted above, the news in Italy put a dent in the 10-Year Treasury, and it fell almost 30 basis points (or, 0.30%) in a matter of weeks in May. This gave the Federal Reserve (the Fed) pause, and it appears there may be more discussion about having one less interest rate hike in 2018 than previously anticipated. Still, the 10-year yield is at 2.85 as of quarter end.

Conclusion

As many of you know, at MONTAG we take a long-term view towards investing. As we've said in the past, 2017 was a rare, linearly upward trajectory for the markets, and volatility was sure to return. That has come to pass so far this year. The markets will react appropriately (sometimes not!) to bombastic headlines like a trade war, but we also see corporate balance sheets remaining strong, and positive economic news like the jobs report at the beginning of June showing unemployment at its lowest rate in half a century. Having the experience to take a measured approach to the markets has served us best in the past, and that is what investors from MONTAG benefit from, in our opinion. M

John Montag is President & Chief Investment Officer

A lot of what happened in (or to) our domestic markets had an international flavor to it during the second quarter

IT'S HOW DAD DID IT... RIGHT? — *Steve Whittington, CFA*

In our country right now, a unique dynamic is occurring: There is a wealth transition from one generation (the baby boomers) to another (their children) that has never been seen before, both in size and scope. The older generation has been a steward of their wealth for decades, both preserving and growing it until they can pass it on to their children and grandchildren. As such, this younger generation that comes in to wealth may also "inherit" a relationship with their parent's investment adviser.

Implicitly, this adviser has been both effective, trustworthy and helpful to your parents given that your parents have given their wealth to this person and kept it with them. So they've done a good job for your parents...but what about for you? In this day and age, there are countless options for wealth management, and perhaps you are tempted to explore another vehicle for your inherited wealth. And as it is with most things, what you choose will probably come down to what you value. Just because "it's how dad did it" might not be a good enough answer for you. Therefore, this might be a helpful list for you to consider.

Did you talk with your parents about their wealth? Communication, and therefore education, from one generation to the next about wealth is the number one most important factor in the preservation of capital. Your parents have carefully built their wealth over time; hopefully they have had a dialogue with you about how to be a responsible steward of that wealth for YOUR children as well. And somewhere in there when discussing stewardship, your parents will probably mention the role of their investment adviser and the level of comfort your parents have had with them.

How long was the relationship between your parents and their investment adviser? The answer to this question goes a long way into gleaning how trusted your parents' adviser was for them, because if they were un-

Continuing thoughtful stewardship of family wealth is a great legacy

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DID YOU KNOW?

What date is officially celebrated as **FLAG DAY** each year in the United States?

(Answer on Page 4)

- **A. February 14th**
- **B. March 17th**
- **C. The last Monday in May**
- **D. June 14th**
- **E. July 4th**
- **F. The first Monday in September**

Can you pick up the phone on the worst day of the year and call someone that you know and trust?

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happy with the service they were receiving, they could (usually) go elsewhere, right?

Was the investment adviser more than an adviser? The term financial services, in particular "services", means different things to different people. Often, the advisers who truly service their clients know more about them than just the dollars that are managed.

Did the investment adviser get to know YOU at all, previously? There are a lot of family dynamics at play with a question like this, but in our experience at MONTAG, establishing a relationship with multiple generations like you and your parents is preferred if possible.

Was the investment adviser informative for and transparent with your parents? Take a look at prior communications between their adviser and your parents. Were answers easy to find, and understand? Was the tone of emails between your parents and their adviser comfortable and relaxed?

By now, you can see where I'm going with this. The answers to these questions hopefully canvas the importance, and trust, of the investment adviser to your parents. And, you may have already known about them and had a conversation with them as well. But, are they right for you?

The answer to that question, as I mentioned above, is that it comes down to what you value. If your value system is similar to your parents, for example, then the adviser that they have (or had) currently will be, at the very least, a good starting point for you, if not a good fit for you.

In today's age of the internet, there are other automated solutions for wealth management that may sound more appealing for the do-it-yourselfer **(see my blog on roboadvisers)**, and you may be one of those folks. At MONTAG, what we've learned is what resonates the most with clients who gravitate to us is inherent in the answers to the questions above. That is, can you pick up a phone on the worst day of the year and call someone that you know, and trust? There is something to service beyond technological ease for some people, and it's something that your parents valued in their long-term relationship with their adviser.

So maybe how dad did it is right for you, too. **M**

Steve Whittington, CFA is Director of Business Development

AROUND THE RESEARCH TABLE

MONTAG Portfolio Managers continue to debate recurring themes, ones that also regularly surface in client meetings. Here are a few of the highlights:

- Despite the volatility, markets continue to be fully-valued. Not significantly overvalued; rather, true investment opportunities with an above average return are few and far between. Thus, patience is still the best strategy.
- Warren Buffet and Jamie Dimon (of Berkshire Hathaway and JP Morgan Chase, respectively) mentioned that the economic expansion is in the 6th Inning, but we have the 3rd and 4th batter coming to bat. This would keep the expansion moving forward and be a positive for cyclical stocks.
- Inflation is lurking about as a true concern. It is too early to understand which industries will truly be impacted, but the various factors that could lead to inflation seem to be changing. **M**

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RISING INTEREST IN FIXED INCOME — *MONTAG Educational Series*

What market developments have occurred to make this a timely topic?

Now that the Fed has communicated that interest rates will in fact continue to rise, these increases present a challenge to the stock market, especially income-oriented securities, as investors seek a better return with lower risk elsewhere; hence, shorter term fixed income securities.

In the new rising rate environment, what should people be thinking in relation to their overall investment portfolio?

Interest rates tend to move in cycles. After a 30-year bull market in bonds, we then shifted to a zero-interest policy for almost 10 years. We may be living in the early stage of a rising rate environment, so we want to be prudent in assessing the various opportunities which will alleviate some of the exposure to the volatility in the equity markets while keeping a fresh eye on enhancing the income produced within client portfolios.

Regarding "Fixed Income 101", what are differences among various fixed income securities?

The table below will be a good refresher on the Pros and Cons of various fixed income securities:

Type of Fixed Income	PRO	CON
US Treasury Bonds	U.S. Government guaranteed and are highly liquid. State tax-free.	Lower yield
Bank Certificates of Deposit	FDIC Insured Brokered CDs are tradeable prior to maturity	FDIC Insurance limits: $250,000 per Registered Holder.
Corporate Bonds - A rated	Higher yields than Treasuries and Certificate of Deposits	Credit risk based on the issuer's financial strength. Requires greater diversification vs Treasuries. Less liquid than Treasuries; depending on financial strength of issue.
Municipal Bonds - AAA rated	Higher rating, less credit risk vs Corporate Bonds. Federal and state* tax-free. **Depending on state of residence*	Credit risk based on the state or local issuer's financial strength. Requires greater diversification vs Treasuries, depending on the financial strength of the issuer. Less liquid than Treasuries;
Treasury Money Market Fund at Mutual Fund Company	Weighted Average Maturity: 10 days but tradeable daily. Expense ratio: 0.35%	Position Traded.
Tax Exempt Money Market Fund	Federally tax exempt.	State taxable.

DID YOU KNOW? *(from page 3)*

Answers: D. June 14th

We celebrate **FLAG DAY** on **June 14th** because that was the date in 1777 that the Second Continental Congress adopted the first Flag Act: *"Resolved, That the flag of the United States be made of thirteen stripes, alternating red and white; that the union be thirteen stars, white in a blue field, representing a new Constellation."*

FLAG DAY is also a special day for the U.S. Army because it's the day they celebrate their birthday. M

UPCOMING EVENT: EXECUTIVE BREAKFAST SERIES—Tuesday, October 16, 2018

MONTAG hosts the next in our series of breakfasts — For more information, contact Steve Whittington — *Business Development Director*, at 678-539-8245 or via email at stevewhittington@montagwealth.com

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