



**BlackDiamond
Financial**

INVESTMENT INSIGHTS

THIRD QUARTER 2019

Key Topics

- ◆ Interest Rate Declines Calm Equity Markets
- ◆ Index Fund Assets Surpass Stock Picking Assets
- ◆ Mortgage Rates Drop to Multiyear Low





Interest Rate Declines Calm Equity Markets

A decline in interest rates helped buoy markets during the third quarter despite increasing concerns of a possible recession. The ongoing trade dispute with China and incessant political turmoil remain headwinds, but investors have become sensitized to differentiate noise from substance. We have entered the longest U.S. business expansion in the post-war period leading to questions of when the tide will turn. Current economic readings such as the yield curve inverting, the ISM declining,⁽¹⁾ and corporate profit margins falling do cause concern, but when looking at a broad set of indicators it does not appear that a recession is imminent.

The S&P 500 stayed in a narrow 6% trading range this quarter and experienced only 14 days with a move greater than 1%. Despite muted returns of 1.7% this quarter, the S&P 500 is up 20.6% year-to-date. Importantly, returns over the last-twelve-months for the S&P 500 remain sluggish at 4.3% given the 13.5% decline experienced in the fourth quarter of 2018. Small capitalization stocks had a negative return this quarter of 2.4%, and international companies were down 1.8%. Declining interest rates are favorable for real estate investors and contributed to a 7.7% gain for real estate stocks. Real estate has been the best performing asset class in 2019 with a 26.8% return. In addition, bonds had another solid quarter rising by 2.3% since bond prices are inversely correlated with interest rates.

As global interest rates declined, European and Japanese central banks pushed government bond yields below zero. Negative interest rates create an unprecedented scenario where bond buyers (lenders) are essentially paying governments (borrowers) to hold their money. This phenomenon is widespread with \$17 trillion of sovereign bonds yielding negative rates; double the amount since 2019. Negative rates abroad have put downward pressure on U.S. rates.

Comparative Returns

	Annualized Performance					
	Q3 2019	YTD	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks⁽²⁾	1.7%	20.6%	4.3%	13.4%	10.8%	13.2%
Small Cap U.S. Stocks⁽³⁾	(2.4%)	14.2%	(8.9%)	8.2%	8.2%	11.2%
International Stocks⁽⁴⁾	(1.8%)	11.6%	(1.2%)	6.3%	2.9%	4.5%
Real Estate⁽⁵⁾	7.7%	26.8%	18.3%	7.3%	10.1%	13.0%
U.S. Bonds⁽⁶⁾	2.3%	8.5%	10.3%	2.9%	3.4%	3.7%

(1) Manufacturing index monitors changes in production levels from month-to-month.

(2) Measured by the S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy.

(3) Measured by the Russell 2000, which includes the 2000 smaller stocks of the Russell 3000 index.

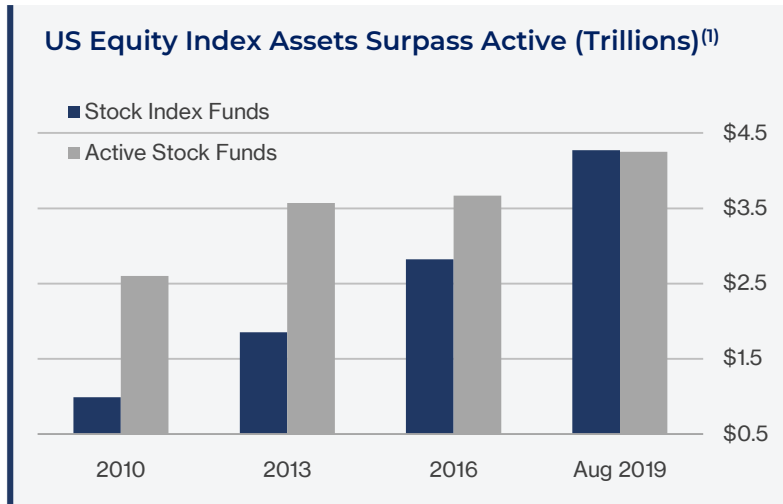
(4) Measured by the MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets.

(5) Measured by the MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks.

(6) Measured by the Bloomberg Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market.

Index Fund Assets Surpass Stock Picking Assets

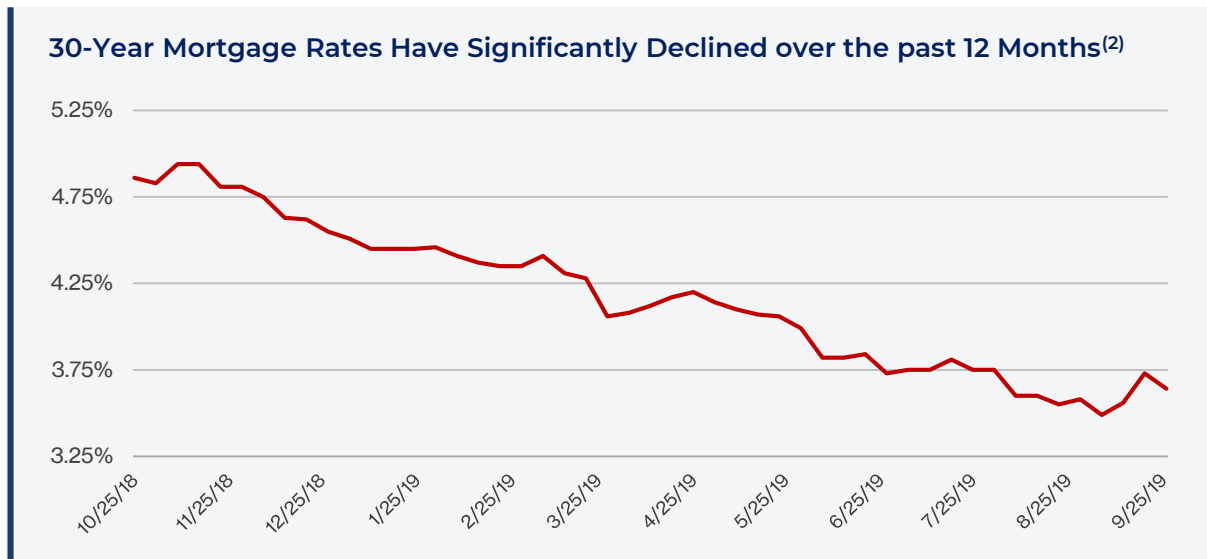
In August, a monumental milestone was reached: assets in U.S. equity index investments reached \$4.3 trillion and exceeded the total assets invested in U.S. stock picking mutual funds. For those closely watching the investment landscape, this milestone for index investing is no surprise. According to S&P Dow Jones, in aggregate, mutual funds that attempt to beat the market by picking large company stocks, have underperformed the S&P 500 for each of the last nine years. Furthermore, only 9% of large company stock picking mutual funds have been



able to outperform the S&P 500 over the last 15 years. The performance of active management is no better in other asset classes such as small company stocks where only 4% of active funds have outperformed the S&P 600 Small Cap index over the last 15 years. We fully expect the outperformance of index investing to continue, leading to superior results for index investors for the foreseeable future.

Mortgage Rates Drop to Multiyear Low

Declining interest rates pushed mortgage loan rates to multiyear lows this quarter creating an opportunity for many borrowers to reduce costs by refinancing mortgage debt. The decision to refinance includes many factors, such as one's loan amount, tax bracket, current interest rate, new interest rate, expectation of the length of time they will own the property, and closing costs. The best way to analyze whether refinancing is the correct strategy is to perform a breakeven analysis comparing the total costs of one's current loan with a new loan. With larger jumbo loans, even a 0.5% rate difference can make refinancing worthwhile, especially if the property will be owned for a long time period.



(1) Source: Morningstar. Data through August 31, 2019.

(2) Source: YCharts 30-Year Mortgage Rates. Data through 9/26/2019.



ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment advisor with a unique focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, returns optimized, and tax-efficient. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is well-below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

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