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A Financial Checklist for Your Newly Minted High School (or College) Graduate

Posted by Gay Truscott on June 18, 2019

Financial planning can begin at any age. A good starting point for many is when heading off to college, a first job, or the military. This article, "A Financial Checklist for Your Newly Minted High School (or College) Graduate" provides a valuable checklist of items to think about from budgets to credit cards, healthcare, retirement savings, and information security. We hope you find it helpful.

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A Promising Start

Posted by Jordan Smyth on April 12, 2019

In this latest installment of our quarterly report, we share our observations on the first quarter of 2019 and offer an outlook for the economy and markets. Click here to go to the full report on our website. Following are a few highlights:

- What a difference a quarter makes. The U.S. stock market rebounded sharply in the first quarter of 2019, posting its best start to the year since 1998. This outstanding showing came after a dismal end to 2018 and eased fears of an imminent end to this long-running economic recovery and bull market.
- The S&P 500 index rose throughout the first quarter and delivered a total return of 13.6%. Bonds also moved higher, with the Bloomberg Barclays U.S. Aggregate Bond index returning 2.9%, as yields moved lower due to continued low inflation and signals

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Welcome to Edgemoor's Home Away From Home!

It's here that the Edgemoor Investment Advisors team will delve into issues related to long-term wealth management, comment on pertinent news, and help make sense of today's economic and investing climate.

You can reach us directly at info@edgemoorinv.com or (301) 543-8370. Feel free to also visit our homepage (link above), for more information.

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- A Financial Checklist for Your Newly Minted High School (or

from the U.S. Federal Reserve Board that it would likely not raise the federal funds rate further this year.

- Economic indicators were mixed and generally confirmed that the U.S. economy continued to expand, despite the partial government shutdown, though at a slower rate than in previous quarters.
- Fed policy was the center of attention during the quarter, and comments from the Fed revealed greater wariness of factors hindering economic growth. The yield on the 10-Year Treasury was 2.4% at the end of the quarter, down from 2.7% at the beginning.
- A brief yield curve inversion at the end of the quarter momentarily spooked markets, as short-term interest rates rose above long-term rates and signaled expectations of economic weakness. The inversion did not last long enough to serve as a strong warning, but it did renew talk of a potential recession.
- For the remainder of this year, we forecast low bond yields, modest inflation, and GDP growth of about 2% annually, a combination that should allow the Fed to stand pat and stocks to hold their gains and even rise a bit further through year end.
- We currently see little risk of recession in 2019, given our assessment of economic conditions, but a surprise one way or another regarding employment, inflation, or the direction of interest rates could bring a sharp reaction from the markets.
- U.S. corporate earnings growth remained strong throughout 2018, but earnings will likely fall for the first quarter of 2019, partly due to the prolonged government shutdown and trade wars. Analysts currently expect relatively flat earnings in the second quarter, followed by a resumption of earnings growth in the second half of this year and a full-year 2019 increase of about 3.5%.
- The S&P 500 index is now trading for 16.7 times projected earnings for the next year, roughly in line with its historical average. Based on this and other measures of market valuation, we believe the broad market is neither overvalued nor undervalued.
- Having nearly recovered to its September 2018 peak, the S&P 500 index may hover near its current level for a while as investors digest upcoming earnings reports and assess overall economic and political conditions. We currently expect more gains for stocks by the end of the year, given reasonable valuations and our expectations for moderate earnings growth, but stock performance will depend not just on reported earnings but also the outlook provided by management.
- The third year of a presidential term is usually good for the markets, since the White House wants to do whatever it can – likely including a resolution of trade disputes – to boost the economy heading into the next year's elections.
- For the income portion of our portfolios, we still see good opportunities to invest in high-yielding equities and have added some bonds to our portfolios to help provide stability in times of market uncertainty.

As always, feel free to contact us if you have any questions or comments. For more information, visit our website.

Jordan Smyth, Gay Truscott and the Edgemoor Investment Advisors Team

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Sit Tight

Posted by Jordan Smyth on January 15, 2019

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- What Midterm Elections Mean for Markets
- New Highs Amidst the Noise

In this latest installment of our quarterly report, we share our observations on the volatile fourth quarter of 2018 and offer an outlook for the economy and markets. Click here to go to the full report on our website. Following are a few highlights:

- After rising to record highs in September, the U.S. stock market plunged in the fourth quarter of 2018 before rebounding sharply in the last several days of the year. The volatility rattled investors, who entered 2019 nervous about the outlook for the global economy, corporate earnings, the markets, and their portfolios.
- The S&P 500 index fell 19.8% from its September peak to its low point for the year in December, barely missing the 20% drop that would have officially put the index into bear market territory for the first time since 2009.
- For the full year, the S&P 500 index's total return, including dividends, was -4.4%. Foreign stocks fared worse, broadly falling about 14%. Investors flocked to the safety of bonds in December, but bond prices still declined over the full year as interest rates rose. The yield on the 10-Year Treasury at year-end was 2.7%, up slightly from 2.4% at the end of 2017.
- The prospect of an end to the longest-ever U.S. bull market is daunting, and we understand the angst caused by falling portfolio values. However, we think the U.S. economy and stocks still have room to run, and we are encouraged by the market's recovery so far in early 2019.
- Economic expansion continues in the United States and we currently do not expect the U.S. economy to enter a recession in 2019. GDP growth should be about 2.5% in 2019, and analysts currently expect corporate earnings to increase about 7%.
- We expect mixed economic trends elsewhere in the world. The European Central Bank seems determined to remove stimulus even as the European economy is slowing, and Great Britain's planned exit from the European Union (Brexit) will probably hurt economic growth. The Chinese economy is likely to continue to expand at a lower rate than in recent years. Any resulting decrease in Chinese demand for raw materials and other goods would slow the global economy.
- One of the biggest economic risks is the potential for harmful trade wars, as threatened by the Trump administration. We are optimistic that ongoing negotiations will lead to agreements to avoid the worst outcomes, but we are keeping a watchful eye on progress.
- We believe stock valuations are attractive after the recent pullback. The S&P 500 index's price/earnings ratio, one of the most widely followed measures of market valuation, has dropped from above 18 at the beginning of 2018 to 15.1 now, below its 5-year average of 16.4 and the 25-year average of about 16.
- Finally, the stock market has always bounced back sharply from corrections (drops of 10%-20%) and bear markets (drops of more than 20%) in the past, and we see no reason to expect anything different now. The reversal is often swift, though patience is one of the most important virtues for investors.
- We believe the best course of action in the face of current opportunities and challenges is to stick with a diversified portfolio designed, as are the ones we manage, to weather the periodic market storms that inevitably come and wait for stocks to rebound.

As always, feel free to contact us if you have any questions or comments. For more information, visit our website.

Jordan Smyth, Gay Truscott and the Edgemoor Investment Advisors Team

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What Midterm Elections Mean for Markets

Posted by Christine Xu on November 20, 2018

Have you ever wondered what midterm elections mean for markets? According to a recent article from Dimensional Fund Advisors, data for the stock market going back to 1926 shows that midterm elections did not have any material impact on market returns. Also, there does not seem to be a pattern of stronger returns when any specific political party is in control. Consequently, investment decisions made solely based on the outcome of elections are unlikely to generate excess returns.

Click on this link to read the full report. Happy Thanksgiving!

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New Highs Amidst the Noise

Posted by Jordan Smyth on October 11, 2018

In this latest installment of our quarterly report, we share our observations on the third quarter of 2018 and offer an outlook for the economy and markets. Click here to go to the full report on our website. Following are a few highlights:

- The stock market rose steadily in the third quarter to hit new highs, despite all the noise related to global trade, domestic and foreign politics, and concerns that the market may be peaking. The S&P 500 index returned 7.7%, its best quarterly gain since 2013, as investors cheered surging corporate earnings and ongoing economic expansion.
- The primary catalysts for stocks' third quarter rise were solid economic growth, particularly in the United States, and outstanding corporate earnings reports. The U.S. economy as measured by gross domestic product (GDP) expanded 4.2% in the second quarter, up from 2.2% in the first.
- Boosted by strong consumer and business confidence and the recent tax cuts, corporate earnings continued their streak of robust increases, surging 25% for the second straight quarter. In addition, 80% of companies topped analysts' estimates, the highest percentage since FactSet began tracking this data in 2008.
- Interest rates continued their steady rise, with the yield on the 10-year Treasury climbing above 3%, near its seven-year high but still low by historical standards and a reflection of economic optimism.
- The unemployment rate dropped in September to 3.7%, the lowest level since 1969, and wage growth remained in the range of 2.8%-2.9% for the quarter.
- But the markets and the economy delivered their solid performances amidst a backdrop of trade disagreements, political squabbles, and signs of slowing growth and other economic concerns abroad, particularly in emerging markets. The foreign stocks we own have underperformed this year, after a very strong performance last year, due to these factors, as well as the strength of the U.S. dollar relative to other currencies and the higher representation of high growth technology stocks in the U.S. relative to foreign benchmarks.

- Looking ahead, we expect that economic growth and corporate earnings increases will continue, presenting an opportunity for more gains in the U.S. stock market. We think the U.S. economy will remain healthy, though GDP growth will likely moderate somewhat in the second half of this year, resulting in an increase of about 3% for all of 2018.
- We expect that the Fed will likely raise the federal funds rate again in December, and interest rates on government and corporate bonds will gradually rise as labor markets tighten and inflation picks up. For now, we view increasing rates as an expected and reasonable result of steady economic growth.
- We will be keeping a close eye on several important domestic and global issues. The upcoming midterm elections in the United States may bring change to Congress that could slow the trend toward lower regulation and taxes. We hope to see progress on the trade disputes that are bringing uncertainty to businesses and threaten to offset the benefits to earnings provided by the corporate tax cuts. In our opinion, imposition of significant additional tariffs and further deterioration of our relationships with foreign trade partners would be detrimental to the economy and markets.
- The S&P 500 index now trades for about 16.8 times projected earnings for the next twelve months, the same as at the end of the second quarter and roughly in line with long-term levels. We consider the stock market overall to be reasonably valued and believe the securities we own, which trade at an average price/earnings ratio lower than that of the broad market, to be underpriced relative to our estimates of their intrinsic values.
- While cautiously optimistic on stocks, we remain wary of long-term bonds, as we expect interest rates to move higher as the economy continues to expand and wage pressures increase. We are buying some bonds with short- to intermediate-term maturities to provide some ballast to our portfolios in the event of a sharp downturn in the stock market, as these bonds are less sensitive than longer-term bonds to changes in interest rates.

As always, feel free to contact us if you have any questions or comments. For more information, visit our website.

Jordan Smyth, Gay Truscott and the Edgemoor Investment Advisors Team

The S&P 500 Index is the Standard & Poor's Composite Index of 500 stocks and is a widely recognized, unmanaged index of common stock prices.

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