DeBoer Financial Group
Retirement and Estate Specialists

Financial *focus*

Second Quarter, 2018

Message from Jeffrey DeBoer, ChFC®

Welcome to Spring and a dose of reality! New tax laws, an overdue market correction, crazy weather and I won't even mention the news!

In this quarterly update, I would like to focus primarily on the recent market volatility and what you should be considering this year. We are calling 2018 the "***Year of Change"*** and we want to make sure you are well protected and prepared! We also invite you to join us at one of our educational workshops listed here.

As always, **Thank You** for allowing us to advise you.

Market Ups and Downs...
What Happens Next?

Please join us for an **Economic Update** on **Wednesday, April 25, 2018** at **10:00 a.m.** at our office. We will hear from Brad McMillan, Chief Investment Officer of Commonwealth Financial Network. Brad will share his economic forecast for 2018, in addition to some interesting information about our economy that will make you stop and think! Join us and you are welcome to bring a friend!

Please RSVP by Monday, April 23, 2018

New Tax Laws and Market Volatility

Who do you know that may be concerned about the recent market correction or how the new tax laws will affect them?! Please invite them to join you at one of these educational lunch or dinner workshops at Sienna Restaurant in Roseville to learn helpful ideas and strategies they may wish to consider.

Thursday, May 17	***Tuesday, May 22***	***Thursday, May 24***
12:00 p.m.	***5:30 p.m.***	***5:30 p.m.***

We ask that you invite guests to this event. Registration is required to help us plan accordingly. For more information or to register, please contact Lori Fletcher at (916) 797-1888 or you can email her at lori@deboerfg.com.

975 Reserve Drive | Roseville, CA 95678
Tel (916) 797-1888 | Fax (916) 797-4986 | jeff@deboerfg.com | www.deboerfg.com

First Quarter Summary

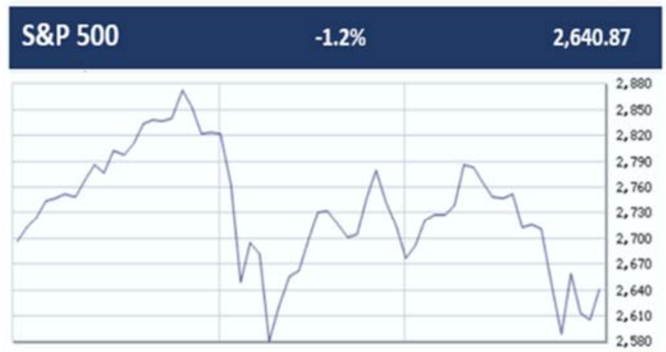
After a blockbuster start to 2018, equity markets have been caught in a vicious circle of trading over the quarter's last two months, with volatility and uncertainty taking center stage.

While a combination of factors like solid earnings, upbeat economic data and new tax legislation have fueled some rallies, inflation fears, protectionist and anti-trade Trump policies, Washington turmoil and faster-than-expected interest rate hikes continue to weigh on equity market returns.

The year started out strong for equities, however, by quarter-end the elongated period of rising share prices and low volatility finally ended. For the quarter, the Dow Jones Industrial Average (Dow) posted a quarterly decline of more than 2.3%, snapping the longest streak of quarterly gains for the blue-chip average since an 11-quarter rally that ended in the third quarter of 1997. The S&P 500 index ended the quarter with a 1.2% quarterly fall, ending its long winning stretch that started in 2015.

The technology sector, which was helping equities advance, experienced huge swings in the first quarter. It was a favored investment sector for many investors for the last few years. A surge from several leading technology stocks and the emergence of new cutting-edge technologies also added to the strength. Given its strong fundamentals, over the last few years, the technology sector easily survived a couple of massive sell-offs, according to FactSet data.

Investor disillusionment with technology stocks created some market declines in the second half of the quarter.



MONEY RATES
(as posted in Barron's 4/2/2018)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	1.53%	0.91%
Bank Money Market -z	0.15%	0.11%
12-month Cert -z	0.49%	0.34%

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

The news of Facebook's data breach raised regulation concerns and seemed to take the shine away from some leading technology stocks and the broader sector. Notably, Facebook eroded about $100 billion in market cap since the scandal unfolded in March.

The US-China trade war announcements also took a heavy toll on equities and the technology sector. Tech stocks make up about one quarter of the S&P 500, so they need to be watched. *(Source: Barron's 4/2/2018)*

KEY POINTS

1. **2018 equity markets started strong, but retreated in February and March, while volatility increased substantially.**
2. **The First Quarter of 2018 broke long quarterly winning streaks for both the DJIA and the S&P 500.**
3. **The Fed raised U.S. Fed Fund rates to 1.50 - 1.75% in March and is scheduled to raise rates two more times in 2018.**
4. **Heightened geopolitical and inflation concerns are influencing stock market returns.**
5. **Investors need to continue to be cautious and watchful, but not emotional.**
6. **Focus on your personal goals and call us with any concerns.**

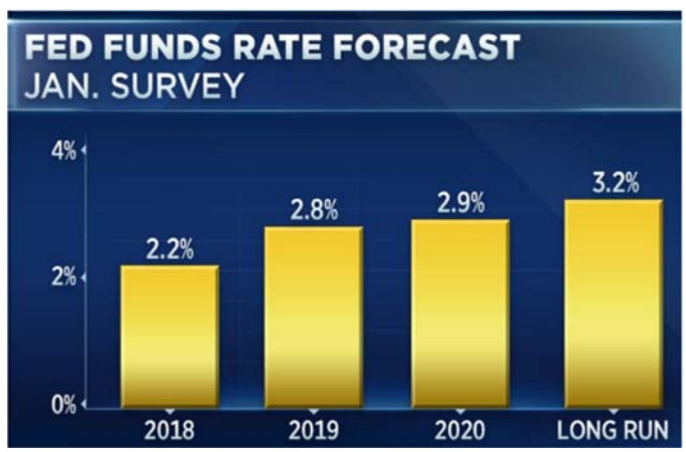
All Eyes on Interest Rates

As expected, in March, the Federal Reserve, now headed by Jerome Powell, raised interest rates in his first meeting This sixth increase since the financial crisis was by another 0.25% bringing the new range to 1.50-1.75%. The central bank hinted at gradual hikes for this year with two more increases. However, the Fed turned hawkish for 2019 and 2020, citing growing confidence in the strengthening economy. As a result, some cyclical equity sectors like financials, industrials, and consumer discretionary are expected to benefit from a rising rate environment.

In early March, Bankrate.com reported that the current 2.9% yield on 10-year Treasuries is low by historical standards but represents an almost 1% jump since September, when the GOP's $1.5 trillion tax cut package, on top of an already humming economy, began to look viable.

A key factor many economists are concerned with is how aggressively the Federal Reserve will raise interest rates to stop the economy from overheating. Bankrate assembled a group of expert panelists and almost 80% of them expect the Fed to hike rates three times this year, similar to last year. Further increases in 2019 might also be in store as the Fed looks to bump the short-term rate to a more historically normal level. The economists were split on their predictions for the 10-year Treasury yield, but 42% forecast the yield to rise to 3.5% or more by next spring. The range of forecasts ranged from 2.28% to 4.3%. *(Source: Bankrate.com 3/7/18)*

As the January CNBC Fed Funds Rate Forecast chart shows, 40 respondents to their survey, including economists, fund managers and strategists, now see the Federal Funds rate ending 2018 at 2.24%, up about a quarter point from the prior survey. Next year, the rate is forecast to rise to 2.8%, also a quarter point higher.



The critical question is, what level of interest rates will start to weigh meaningfully on economic activity? This is a key area that investors need to watch closely in 2018.

Other Concerning Factors

Despite a volatile stock market, the prospect of an international trade war and a declining dollar, top economists surveyed by Bankrate expect workers to enjoy positive economic news in 2018. Businesses will add to payrolls at a decent clip, the unemployment rate will decline and pay should rise, the economists predict. *(Source: Bankrate.com 3/7/18)*

Many analysts are not yet ready to give up on this bull market. Despite the recent volatility, many analysts think the economic backdrop remains strong for stocks. "The fears of a trade war between the U.S. and China escalated this quarter following reports that the two countries were in discussions to improve U.S. access to Chinese markets.

For example, Joe Zidle, Investment Strategist for Blackstone Group LP, said, "Concerns about tariffs, rising interest rates, inflation and bloated valuations have overshadowed good news like higher corporate earnings and strong economic growth". Zidle added, "Investors have been unwilling to embrace this bull market, and now they want to know when it's going to end. The fact that so many people think it's about to end tells me it's going to keep going for a while yet." *(Source: Wall Street Journal 3/27/18)*

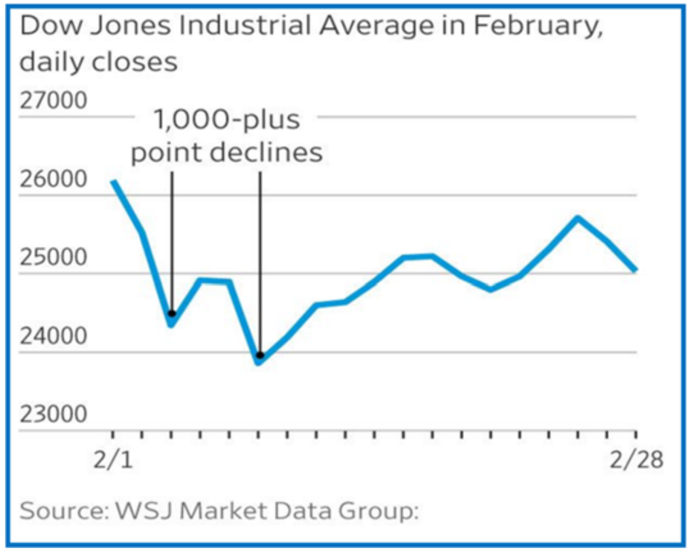
The Flip Side of the Coin

Market bulls always insist that bull markets don't die of old age. Nine years into an extraordinary run for U.S. stocks, it's easy to buy into the idea that the only things that can halt equity markets are a recession or the Federal Reserve.

According to The Wall Street Journal, that claim is only half right. Long periods of calm lead investors and companies to make silly assumptions, leaving them dangerously exposed to shifts in fundamentals.

With the economy now appearing to be in the last phase of the cycle, in which the Fed starts worrying about too much growth rather than too little, some of the easy assumptions of recent years are starting to be challenged — and could threaten the most popular stocks. For nine years, U.S. investors have had easy money, higher profit margins and mostly, rising valuations, even as the economy had its slowest recovery since World War II. *(Source: Wall Street Journal 3/8/18)*

As the chart of the Dow Jones Industrial Average daily closes in February shows, large market movements of 1% or more might become a regular event.



After a year virtually free of volatility, the stock market has reversed the trend and volatility has reared its ugly head. In the first quarter alone, there were 28 days when the market moved plus or minus 1%, compared with eight times in all of 2017. This appears to be a time of uncertainty and the market does not like uncertainty.

At DeBoer Financial Group, our current Quarterly Trend Indicator shows that the short to intermediate term risks reflect a higher probability for increased volatility and potential downturn than we have seen in the last two years.

We want to make sure you are well protected when the risks are higher and take advantage of market growth during the up trends.

What is a Market Correction?

A stock market correction is a 10% decline in stocks from a recent high. A correction occurred during this quarter because the Dow Jones Industrial Average closed at a record high of 26,616 in January and also closed during the quarter down more than 10% from that high.

A correction is less severe than a bear market. A bear market is defined as when stocks decline 20% from their recent highs.

Investors should always be aware of market swings and movements, but they also need to remember that equity market pullbacks and corrections are a part of investing. Historically, a market correction, or a 10% decline, happens approximately once a year. A 5% pullback happens about three times a year, however in the last few years that has not been the case. 2017 was a year of limited and low volatility, so many investors were not ready for these large declines. Also, typically these pullbacks happen over a longer period than two days. While this might not be the end of the equity markets fall, it might be helpful to put these media grabbing market drops into perspective.

Stock Market Corrections

Magnitude of Decline	Frequency of Decline
-5% or more	About 3 times per year
-10% or more	About once per year
-15% or more	About once every 2 years
-20% or more	About once every 3.5 years

(Source: American Funds, Deutsche Bank)

On Friday, February 2nd, the Dow Jones Industrial Average (Dow) dropped 666 points and then on Monday, February 5th, the Dow had its largest point drop ever, falling 1,175 points.

Of course, that historical move was in "point" terms. In percentage terms, the 666 point drop on February 2nd was 2.54%, the 538th largest one-day decline at that time. While the February 5th drop of 1,175 points created the largest downward move in point terms, it was just the 108th largest single day decline since 1900 in percentage terms at 4.60%. *(Source: www.seekingalpha.com)*

While corrections affect everyone's returns, the investors who should be most worried when corrections come about are those who've geared their trading around the short term, or those who use leverage.

When asked, does this mean we're entering a recession, CNN Money wrote that, "Stock market declines don't cause recessions, and they do a pretty poor job of predicting whether one is coming. So while the market plunge might rattle investors and ding consumer confidence, it is not a sign that the economy is in trouble." They also added that, "unemployment is at a 17-year low. Average hourly wages went up last month (January) the most in eight years. Consumer and business confidence are near record levels. Economists say it would take a much bigger stock market move than Monday's plunge (of over 1,000 points for the DJIA on 2/5/18) to change that." *(Source: CNN Money 2/6/18)*

On a positive note, a stock market correction can provide a good reminder for long-term investors to reassess their holdings.

Avoid Emotional Investing!

For most people, investing is difficult, and being human can make it even harder. That's why even the smartest people are affected by cognitive biases, especially when it comes to investing.

Today, there are hundreds of media outlets, many with 24/7 needs for news, and some of these channels use fear and hype to attract viewers. CNBC reports that "since Inauguration Day, it's fair to say that many people are experiencing a volatile and highly emotional environment. Whether you're happy or unhappy with the Trump administration, upset or simply distracted by the widespread protests, raucous Cabinet confirmations, Twitter controversies and reports of spats with foreign governments, investors need to be aware of their biases and the impact they could have on their current investing decisions." *(Source: CNBC 4/3/18)*

Despite all of this, financial markets started the year strong. Then in February and March, investors experienced a resurgence of volatility. One critical point that investment professionals consider is that financial markets and the global economy are generally far more resilient than our perceptions tend to give them credit for. Over the past century, investors have had to worry about world wars, recessions, depressions, financial crises and international events.

Recently, investors have experienced a lot of volatility, which could lead to panic. Financial markets are still at higher levels than just a few years ago and many economic signs are still healthy. At the same time, many risks have increased substantially this quarter, which is why we are taking a more cautious, logical approach.

It is human to have emotional reactions to your portfolio's volatility, whether it be fear and anxiety to losses, or confidence and elation to gains.

Sometimes an investor's decision-making uses emotional filters to respond to daily events, and that can influence our mindset. At times, we can use our emotions as "shortcuts" to make ourselves more comfortable, but many times this can be a process that has major pitfalls.

Traditional finance assumes that cognitive biases play no role in the decision-making processes, but we understand that as human beings, we are many times complex and emotional when it comes to decision-making.

One of legendary investor Warren Buffett's most quoted sayings urges investors to, "be fearful when others are greedy and greedy when others are fearful." The optimum response for investors most times to emotion in investing is to acknowledge it without, if possible, allowing it to cause you to deviate from your personal financial plan that has been created to help advance your goals. Discipline and review can play a major role in successful investing. Your behavioral biases could potentially get in the way of following a disciplined plan.

Proceed with CAUTION is still the principal notion for investors.

If you are concerned with your current investments or if your goals or risk tolerance levels have changed, please contact us.

Focus on YOUR Personal Goals and Strategy

Investors need to be prepared. Market volatility should cause you to be concerned, but panic is not a plan. Market downturns do happen and so do recoveries. This is the ideal time to ensure that you fully understand your time horizons, goals and risk tolerances. Looking at your entire picture can be a helpful exercise in determining your strategy.

We focus on your own personal objectives.

During confusing times, it is always wise to create realistic time horizons and return expectations for your own personal situation and to adjust your investments accordingly.

Now is the time to make sure you are comfortable with your investments.

Equity markets will continue to move up and down. Even if your time horizons are long, you could see some short-term downward movements in your portfolios. Rather than focusing on the turbulence you might want to make sure your investing plan is centered on your personal goals and timelines. Peaks and valleys have always been a part of financial markets and it is highly likely that trend will continue.

Discuss any concerns with us.

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance please call our office or bring it up at your next scheduled meeting.

A skilled financial advisor can help make your journey easier. Our goal is to understand your specific needs and then implement a customized plan to address those needs.

Note: Presented by Jeffrey W. DeBoer, ChFC®. The views stated in this letter are not necessarily the opinion of Commonwealth Financial Network, Inc., and should not be construed, directly or indirectly, as an offer to buy or sell any securities mentioned herein. Investors should be aware that there are risks inherent in all investments, such as fluctuation in investment principal. With any investment vehicle, past performance is not a guarantee of future results.

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In general, the bond market is volatile, bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Sources: Barron's, Seeking Alpha, CNN, CNBC, FactSet, Wall Street Journal, American Funds, Deutche Bank, Academy of Preferred Financial Advisors, Inc.©

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Roseville, CA 95678
Tel (916) 797-1888 | Fax (916) 797-4986
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