

# KACHKOVSKY & FISHER

REGISTERED INVESTMENT ADVISOR

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It's hard to nail down the exact origins of the hamburger, but there's no denying that the popular sandwich has become an iconic American staple. And, with burgers have come other national icons such as Burger King, White Castle and – of course – McDonald's, which sells 75 burgers every second – 300 billion sold to date. The love for this quintessential sandwich has extended beyond the United States, as well. Even in France, 85% of restaurants have a hamburger on their menus. It's a love that has evolved, too. While hamburger toppings may have once been limited to the standard lettuce, onion, tomato, pickles and cheese – now restaurants are offering more adventurous options from fried eggs to guacamole and even peanut butter! Vegetarian options, too. Considering Americans consume 50 billion burgers a year, it's no surprise we've started to branch out. This May – a.k.a. National Burger Month – we hope you enjoy at least one burger with all your favorite toppings. We know we will!

Let's take a look at the numbers.

	(As of 3/31/18)
Dow Jones Industrials	- 2.28 %
S&P 500 Index	- 1.20 %
NASDAQ Composite	+ 2.31 %
MSCI EAFE Index	- 2.20 %
<b>Major Bond Indexes</b>	(As of 3/31/18)
Lipper U.S. Government	- 1.34 %
Lipper Short-term Investment Grade	- 0.21 %
Lipper Corporate A-Rated	- 2.18 %
<b>Major Mutual Funds Indexes</b>	(As of 3/31/18)
Lipper Large-Cap Core	- 1.05 %
Lipper Mid-Cap Core Index	- 1.17 %
Lipper Small-Cap Core Index	- 1.09 %
Lipper International Markets Index	- 1.62 %

**Source: The Wall Street Journal and Barron's**

\*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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## FINANCIAL AND INVESTMENT PLANNING

**“ When you get into a tight place and everything goes against you, till it seems as though you could not hang on a minute longer, never give up then, for that is just the place and time that the tide will turn. ”**  
**— Harriet Beecher Stowe**

As we look back at the first quarter, market volatility returned with a vengeance (compared to 2017). The volatility we saw in early February persisted through March – and has now continued into the start of April. Since the S&P 500 peaked on January 26, the index moved at least 1% on a daily basis on half of the 43 trading days through the end of March.

“This contrasts to only one move of greater than 1% during 2018 prior to that peak and is a far cry from the calm seen in 2017, when the S&P 500 produced a 32-year volatility low with only eight days with moves of at least 1% for the full year,” shared Managing Director of Equity Portfolio & Technical Strategy Michael Gibbs.

Looking to our economy, 2018 got off to a mixed start. Housing affordability is expected to remain an issue due to a combination of strong demand and continued supply constraints. Typically, these conditions push housing prices higher. Another headwind is that of rising budget deficits. This should put pressure on long term interest rates. On the positive side, unemployment remains low and business optimism remains strong. Earnings growth remains a strong pillar of support for our economy. Many are expecting earnings growth to come in north of 18% for 2018. This would be the strongest level since 2010 when earnings had their initial recovery coming out of the credit crisis. With the economy improving, the Fed has now raised short term rates 6 times since December of 2015.

With the stock market drop in Q1 and strong earnings growth equity valuations have actually come down in the U.S. Looking outside the U.S., equity valuations continue to be more compelling as can be seen in the chart below:

### Price Earnings Multiples

	Forward Price Earnings Ratio
United States	17.4
International Developed Markets	14.3
Emerging Markets	12.4

Sources: MSCI, RIMES as of 2/28/2018. Price-earnings ratios for MSCI USA, MSCI EAFE, and MSCI Emerging Markets.

A healthy backdrop for the U.S. equity markets exists amid all the recent market noise. In a recent Federal Open Market Committee (FOMC) press release, the Fed highlighted strengthening of their economic outlook. Growth in the remainder of the year is expected to be relatively strong, with an unclear impact from fiscal stimulus such as corporate tax cuts and increased spending.

Having raised short-term interest rates again on March 21, Fed officials are split in their expectations of whether there will be two or three more hikes this year. “Since December of 2015, including this month’s hike, the FOMC has raised rates six times for a total increase of 1.75%. Over the same time frame, the 10-year Treasury has risen only 0.55%, and we saw the Treasury yield curve flatten during the month,” explained Doug Drabik, Raymond James senior vice president, Fixed Income Services Group.

The Fed expects inflation to drift gradually higher, while the unemployment rate is anticipated to fall to nearly a full percentage point below what it considers a long-term sustainable level in 2019 and 2020.

The world’s two biggest economies – U.S. and China - have seen trade tensions rise between them. The U.S. initiated tariffs on steel and aluminum in hopes of reducing the overflow of Chinese imports in hopes of making U.S. manufacturing more competitive. China retaliated with similar measures against U.S. products. While well-intentioned, tariffs raise input costs, invite retaliatory tariffs on U.S. exports, disrupt

supply chains and increase global investment uncertainty. Rob Lovelace, Capital Group Vice Chairman, recently shared his thoughts on the issue of trade, stating “China recently presented its development agenda. Its leaders have set specific goals for 2025 in areas in which they want the country to excel. The list is long, but the more important areas from our vantage point as investors include semiconductors, robotics, industrial and agricultural machinery, aerospace equipment, high-speed rail, biomedicine and electric vehicles. China’s stated goal is to have world-class companies in these sectors, and the unstated goal is to have independence from foreign suppliers.

In the internet space as well, U.S. companies such as Google have not been allowed to operate in China unless they limit access to certain content and cooperate with the government in other ways. These limitations on foreign companies created the space that helped propel Chinese companies such as Tencent and Alibaba, which are now among the most valuable technology companies in the world based on market capitalization. It is becoming clear that in these critical areas, China wants strong local champions, which reduces interdependence. They want a self-sustaining, more closed system. And with President Xi Jinping’s ascendancy as a leader unencumbered by term limits, China can more easily follow through on that long-term strategic vision.

For a trading system to survive and thrive over the long term, interdependence is critical. China wants interlinkages in many of these areas, but not interdependence. It is different from how Japan and Germany evolved into economic giants in the post–World War II period, with economies designed for global interdependence and integration.

China has a much more mercantilist approach. In return for providing access to its huge market, China has assumed it can impose a host of restrictions on U.S. investment and trade. While it perennially objected, the U.S., Europe and others lived with these practices because China’s market offered increasing opportunities as it progressively opened up. There were also expectations that as China progressively opened wider its economy, those restrictions would fade.

Given China’s actions and goals, the U.S. is trying a different, more aggressive approach. It wants China to open its economy and integrate into the global system. It wants protection of intellectual property. If not, the U.S. has to be focused on how it builds systems that are more secure — physically and in terms of intellectual property. These trade negotiations and disputes are now an element in a strategic struggle that is likely to last until China changes its approach on some fronts and until the U.S. and China agree on a new balance that both can live with.”

When reviewing economic data, it can be difficult at times to ascertain the impact that certain metrics may have on our lives and the world at large. The same can be applied to one’s decision making in our day to day lives. It reminds us of a quote from Annie Duke - “Truthseeking, the desire to know the truth regardless of whether the truth aligns with the beliefs we currently hold, is not naturally supported by the way we process information... Instead of altering our beliefs to fit new information, we do the opposite, altering our interpretation of that information to fit our beliefs.” While we all process information through our own lens, it’s important to be objective about the new information, thereby reducing biases in our decision making.

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## PERSONAL

“Swoosh” was the sound Kora was trying to make as she practiced her hockey stop at the end of ski season. Kora (7) and Macy (5) completed their 2<sup>nd</sup> season of skiing. Their confidence has grown substantially since they started skiing last year. At the bottom of a run, Kris would often ask the girls, “what did you think of the run?” The common response was, “too easy.” Being new to skiing themselves, Angie and Kris are taking it slow with their daughters. The girls’ patience with mom and dad may be tested next year. The sport has quickly become the family’s favorite activity together.



In March, the Fisher family flew to Houston to visit Angie’s dad. Macy and Kora loved hanging out with grandpa. The highlight of the trip was a visit to the NASA Johnson Space Center. The wide-eyed girls got to touch a real asteroid and see the Saturn V rocket. The Saturn V is the tallest, heaviest and most powerful rocket ever flown.

Broken? Maybe not. As Angie’s shoulder hit the ground, she wasn’t sure. The x-ray confirmed that she did indeed fracture her humerus. The fall happened on her last ski run of the day on the last ski day of the season. The orthopedic said it should heal in about six weeks and that surgery wouldn’t be required. The tough mother of two was grateful the injury occurred at the end of the season and not the beginning. She is in great spirits and can’t wait to start hiking the mountains this summer!

Winter fun is not only reserved for the Colorado Rockies. Despite temperate Southern California weather, San Bernadino National Forest, Big Bear Lake and the town of Big Bear, just east of Los Angeles County, offer snow enthusiasts of all levels a reprieve from city life. In January, through the YMCA Adventure Guides and Princesses program, Garry and Ava spent the weekend in Big Bear. There was just enough snow to enjoy the hilly terrain. Despite some initial reservation, Ava took to skiing almost immediately and by the afternoon was trying her best to get around the ski instructor to be the first down the hill. While grandma Sally watched Elle, Emily was able to sneak away for some fun on the slopes. A four year layoff did not seem to affect her snowboarding ability as Garry struggled (as usual) to keep up.

Back in San Diego, unusually warm winter evenings and weekends were spent strolling the beach, hunting for sandcrabs, building sandcastles and playing in the tiedpools. Monday evenings are reserved for gymnastics. A month into this new adventure, Elle is working on her donkey kicks, jumping jacks, trampoline jumps, and forward and back rolls. Ava, almost a year into gymnastics, is perfecting her cartwheels, round offs and handstands. In February, Ava's class went on a field trip to the San Diego Zoo. It is still upto debate who acted more like wild monkeys – the kindergarteners from Spreckels Elementary or the Hamadryas baboons at the recently added Africa Rocks exhibit. In March, Kachkovskys celebrated Elle's third birthday at Seaworld. The dolphin, whale and pet shows did not disappoint. Elle is becoming more independent daily, more particular about what she wants and doesn't want, and continues to be the family clown, always looking to get a chuckle out of someone.

Garry continues to voluteer with the local Rotary. The opportunites are abundant and rewarding - whether rehabing a building at Camp Pendelton Marine Base, feeding war vets at the VA Hospital Spinal Cord Unit, or interviewing our future trailblazers for the Rotary Youth Leadership Awards weekend retreat. Behind the scenes, Emily helps with projects – putting together care baskets for our nation's troops, and donating toys and books for local charity drives.

Thank you for your trust, confidence and friendship.

**“Our greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time”**

**– Thomas A. Edison**



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