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The Power of Corporate Earnings

WEEKLY UPDATE - JUNE 25, 2018

In This Issue

Quote Of The Week
 Recipe Of The Week
 Tax Tips
 Golf Tip
 Healthy Lifestyle
 Green Living

Stocks stumbled across the globe last week as trade tensions continued to escalate. Despite rebounding somewhat on Friday, the S&P 500 experienced its first weekly loss in a month, and the Dow posted its worst week since March.^[1] The S&P 500 dropped 0.89%, the Dow lost 2.03%, and the NASDAQ fell 0.69%.^[2] International stocks in the MSCI EAFE gave back 0.98%.^[3]

While trade headlines may affect market performance, a closer look at the data shows other, more powerful drivers affecting equity prices. In particular, many investors continue to focus on corporate earnings estimates.^[4]

Analyzing Corporate Earnings

Strong corporate earnings have helped maintain a sense of market balance in 2018. As the media focuses on political stories, corporate earnings estimates continue to rise - and have a greater market affect than many investors may recognize.^[5]

- **How Corporate Earnings Estimates Work**

Many financial services companies hire analysts to predict how much a company's stock will earn per share. The average of all the experts' predictions creates a consensus earnings estimate. This calculation gives a rough view of the company's cash flow - which helps investors value a stock. Generally, when a company beats its earnings estimate, the stock price goes up. If it misses or matches the prediction, the stock may suffer.^[6]

- **Where We Are Now**

Tax cuts and increasing demand have helped earnings estimates grow this year. As the estimates have risen, companies with the largest increases are significantly outperforming those with the worst. The latest numbers show earnings per share growing in 2019 and 2020 - and 2018's projections are higher than they were at the end of the 1st quarter. This data has helped keep markets from overreacting to the geopolitical buzz in the background.^[7]

Looking Forward

While we expect to hear more on a potential trade war, we will continue to focus on key market principals. This week, we will receive several reports, including consumer confidence and durable goods orders. Rather than significantly affecting stocks, these releases may simply underscore what corporate earnings and other data continue to demonstrate: Right now, the economy is healthy.^[8]

Next month, earnings season will begin, and analysts expect S&P 500 companies to show 20% profit growth in the 2nd quarter.^[9]

Looking ahead, we will continue to analyze how rising tariffs could affect the domestic and global markets. But, as always, economic fundamentals will take the lion's share of our attention.

If you have questions about earnings, trade, or your future, contact us any time.

ECONOMIC CALENDAR:

Tuesday: Consumer Confidence

Wednesday: Durable Goods Orders

Thursday: GDP, Jobless Claims

Friday: Personal Income and Outlays, Consumer Sentiment

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DATA AS OF 6/22/2018	1 WEEK	SINCE 1/1/18	1 YEAR	5 YEAR	10 YEAR
STANDARD & POOR'S 500	-0.89%	3.04%	13.16%	11.59%	7.65%
DOW	-2.03%	-0.56%	14.88%	10.68%	7.58%
NASDAQ	-0.69%	11.44%	23.35%	18.04%	12.33%
INTERNATIONAL	-0.98%	-3.43%	5.01%	4.02%	-0.06%
DATA AS OF 6/22/2018	1 MONTH	6 MONTHS	1 YEAR	5 YEAR	10 YEAR
TREASURY YIELDS (CMT)	1.83%	2.11%	2.33%	2.77%	2.90%

Notes: All index returns (except S&P 500) exclude reinvested dividends, and the 5-year and 10-year returns are annualized. The total returns for the S&P 500 assume reinvestment of dividends on the last day of the month. This may account for differences between the index returns published on Morningstar.com and the index returns published elsewhere. International performance is represented by the MSCI EAFE Index. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

QUOTE OF THE WEEK



"Opportunity is missed by most people because it is dressed in overalls and looks like work."

- Thomas Edison

RECIPE OF THE WEEK



New England Clam Chowder



Serves 6

Ingredients:

- 1 cup water
- 18 large littleneck clams
- 3 slices of bacon
- 1 medium onion
- 1 tablespoon all-purpose flour
- ½ teaspoon ground black pepper
- 1 pound all-purpose potatoes
- 2 cups half-and-half
- 1 cup milk
- ½ teaspoon salt or to taste

Directions:

1. Boil the water over high heat in 6-quart saucepot. Put in clams and boil again.
2. Lower the heat slightly. Cover the pot and let simmer until the clams open, 5-10 minutes.
3. Put the clams in a bowl as they open. Throw away any clams that don't open.
4. Remove the clams from the shells once they're cool to the touch. Chop them up coarsely. Throw away the shells.
5. Strain the clam broth through a paper towel-lined sieve into a measuring cup. Add water if necessary to make a total of 2 cups.

6. Cook bacon over medium heat in the same clean saucepot until lightly browned. Use slotted spoon to move the bacon to paper towels.
7. Put the onion in the pot with the drippings. Cook until tender, stirring occasionally, about 5 minutes.
8. Mix in flour and pepper until blended. Cook for 1 minute. Stir in clam broth gradually until smooth. Add potatoes and heat until boiling.
9. Lower the heat and cover. Simmer until potatoes are tender, about 15 minutes.
10. Add half-and-half, milk, and chopped clams. Heat but do not boil. Stir in bacon.
11. Add salt as needed.

Recipe adapted from Good Housekeeping^[10]

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TAX TIPS

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Taxpayers' Right to Representation When Dealing with the IRS*

Taxpayers have the right to retain legal representation when interacting with the IRS. Under this right, taxpayers may:

- Retain an authorized representative when dealing with the agency.
- Obtain a representative for IRS interviews.
- Not have to attend interviews with their representatives unless formerly summoned to appear.
- Have an interview suspended to obtain a representative, which may be an attorney, certified public accountant, or enrolled agent.
- Have a qualified person submit a written power of attorney to serve as a representative. The person must be an attorney, CPA, enrolled agent, enrolled actuary, or other official representative who has not been disbarred or suspended from practice.
- Request help from the [Lower Income Taxpayer Clinic](#) if they're unable to afford representation.

Other details may apply, and you can find more information on the IRS website.

* This information is not intended to be a substitute for specific individualized tax advice. We suggest you discuss your specific tax issues with a qualified tax advisor.

Tip adapted from IRS.gov^[11]

GOLF TIP



2 Words to Get the Ball to Drop in the Hole

How do you make the perfect putt? Here's a clue: 2 words, 3 syllables. It's "perfect pace." By saying those 2 words during your putt, you may be able to restore the rhythm to your stroke.

Here's how it works. As you prepare to make your stroke, think of that phrase and a pendulum.

As you swing the putter back, think "per-fect," 2 syllables. As you swing through, think "pace."

The move will help establish cadence in your putt and enable you to hit the ball solidly and smoothly. It also helps eliminate jerky and abrupt movements in your swing.

Focus more on how you're going to putt rather than making the putt.

Tip adapted from Golf Digest^[12]



What Are Cataracts and How Are They Treated?

Cataracts cause cloudy or fuzzy vision. Cataract sufferers may also experience sensitivity to glare.

The cloudy areas in the lens of eyes that are caused by cataracts produce vision changes.

Cataracts typically affect people 60 and older, but younger people can also get it.

Some cases of cataracts require surgery on the lenses of the eyes. Cataracts give sufferers the feeling they're looking at the world through a dirty window.

Advanced cataracts may have the appearance of a whitish or gray film over the eyes.

Cataract symptoms may include:

- Difficulty seeing at night
- Sensitivity to light
- Seeing lights with "halos"
- Double vision
- Dimmer perception of colors

The vision of people with cataracts is sometimes improved with prescription eyeglasses. Doctors may advise cataract surgery for patients who increasingly

begin to see halos around bright lights.

Proceeding surgery, doctors usually conduct tests to measure the size and shape of patients' eyes and instruct patients to refrain from eating 12 hours prior to treatment.

Patients are usually awake but sedated during surgery, which takes about an hour. A small surgical tool is used to suction out the cataract. A new lens is then put in the eye. Lenses are made of plastic, silicone, or acrylic.

Side effects are rare.

Full recovery usually takes about 8 weeks. About 90% of patients say they see better after cataract surgery.

Tips adapted from WebMD^[13]



Going Green While Mowing the Lawn

Being environmentally sensitive and taking care of your lawn may seem like opposite pursuits. After all, American homeowners typically spread toxic chemicals - up to 10 pounds per acre - to keep their lawns green and plush.

Rainstorms flush those fertilizers and pesticides into local ponds, lakes, and streams, which is dangerous to fish and plants. Gas-powered lawn mowers produce the same amount of air pollution in 1 hour as a car driven for 100 miles.

Here are tips to becoming more environmentally responsible and having a greener lawn:

- Rotor mowers work environmental wonders for smaller lawns. They maneuver very easily and have very low maintenance costs.
- The much quieter, electric mowers emit far fewer pollutants than the gas-powered machines and are also easier to maneuver.
- Battery-powered mowers provide many of the same environmental benefits as an electric mower. However, mower batteries generally last only about 5 years.

Going green and mowing green can sometimes be as easy as changing your mowing habits.

Tip adapted from EarthShare^[14]

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues. If you would like us to add them to our list, simply click on the "Forward email" link below. We love being introduced!



Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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www.bloomberg.com/news/articles/2018-06-22/trade-is-an-afterthought-in-stock-market-still-glued-to-earnings

[2] <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=SPX@ion=usa&culture=en-US>

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- [13] www.webmd.com/eye-health/cataracts/default.htm
- [14] www.earthshare.org/2008/09/take-care-with.html

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