



YOUR WEALTH COUNCIL

Newsletter

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Your financial peace of mind is our highest priority

News & Commentary

By Nathan Lovelle, CFA®

Rotation, Rotation, Rotation and Rebalancing

The Byrds had a song that went something like “To everything (turn, turn, turn)... there is a season (turn, turn, turn)”. I’ve learned in my career that to every investing style or sector, there is a season. For some time now, large cap growth stocks have largely led the market rally. During September, we saw a large outperformance in areas that are smaller, and more dividend, international, and value oriented. Perhaps it is their season now?

In September¹:

- **Location:** S&P 500 (U.S.) index was up 1.87%, FTSE All-World ex US index was up 2.64%
- **Yield:** US High Dividend ETF (SPYD) up 6.6%, International Dividend ETF (IDV) up 5.81%
- **Size:** Russell 1000 (large stocks) was up 1.73%, S&P SmallCap index was up 3.34%, S&P MidCap index was up 3.06%
- **Style:** S&P 500 Growth index was up .29%, the S&P Value index was up 3.74%

Growth stocks are typically those growing sales and earnings at fast rates. Value stocks are those who are less “expensive” and have less volatility in their earnings and profits.² “Value” companies normally pay higher dividends. When interest rates drop, these companies should rally (because the dividend becomes more attractive than low interest from bonds).

Yield Curve Inversion

A yield curve inversion occurs when longer maturity Treasuries pay less than near term Treasuries. Typically, we look at the relationship between 2-year and 10-year rates. On August 14, these rates inverted, meaning the 2-year paid more than the 10-year.

According to J. Golub at Credit Suisse ³, an inversion has preceded each recession over the past 50 years, but the time before the recession hits has been very inconsistent. Typically, we have about 18 months of stock market gain following an inversion, where the market rallies about 15% on average. Then a recession normally hits about 22 months after inversion. The worst returns normally occur 18 – 36 months after the inversion.

If Mr. Golub’s analysis of history comes to fruition this time, the market may continue to appreciate until early 2021, then enter a decline until about August 2022. That’s way too precise for a prediction, but it does provide us some insight into what has occurred in the past.

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Increased Volatility at Market Highs

We have seen several market highs the past 12 months. At each peak, the market turned down very quickly, and the low of the next month was between 7 and 10% lower. It looks like this trend is holding for October, as we are already down about 5% from the high hit in mid-September.

Citations:

1. <https://personal.vanguard.com/us/funds/tools/benchmarkreturns>
2. <https://www.fidelity.com/learning-center/investment-products/mutual-funds/2-schools-growth-vs-value>
3. <https://www.cnbc.com/2019/08/13/after-yield-curve-inverts-stocks-typically-have-18-months-before-doom.html>

FINANCIAL PLANNING CORNER

Protecting your financial information from identity theft

We take the security of your personal financial information very seriously. Still, the dangers of identity theft persist. A pleasant telephone voice requesting vital personal information or emails pretending to come from financial institutions you recognize asking for your passwords and PINs are still common, and unnerving, occurrences. And once thieves have enough information, they can do real damage.

While we and our custodian, Raymond James, employ the most up-to-date safeguards to protect client account numbers and other important profile information, you play a vital role in keeping your information secure. There is much you can do.

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- **Keep firewalls and security software up to date** and use encryption software.
- **Use your personal computer for financial transactions**, avoid public-use computers.
- **Do not give out vital information over the phone or by email.** Type in the URL of the site you want rather than clicking a link provided in an email.
- **Check your financial accounts regularly** to ensure no unauthorized activity is taking place. Contact your credit card company or financial account institution immediately if you notice anything suspicious.
- **Only click on links or open attachments that you expect** and are from sources you know and trust. Even if an email is from someone you know, if it looks suspicious, play it safe and confirm with the sender before opening.

Contact Us:

Council Oak Wealth Advisors

8801 South Yale Avenue, Suite 420

Tulsa, OK 74137

918.984.9110

info@counciloakwealth.com

www.counciloakwealth.com

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