PROFESSIONAL FINANCIAL MANAGEMENT, INC.

QUARTERLY NEWSLETTER

2019 Third Quarter

Dear Client,

Welcome to our third quarter letter! We are writing you amid an early season snowstorm, so we hope your fall season has not come to the abrupt end that ours has here in Montana! Statements are out so you should have your information shortly. As always, please take the time to compare the information on your report to your account statements received from TD Ameritrade or other custodians, and promptly contact the office should you find material discrepancies (note that there might be slight discrepancies due to the timing of the credit of dividends or transactions at quarter end). Also, if you are not receiving account statements directly (either in print or electronically) from TD Ameritrade or other custodians, notify us immediately.

We are accustomed to variable fall weather in Montana. Long-term weather patterns as well as a heavy dose of experience has taught residents that 65-degree blue bird days can be easily followed by a blizzard and below freezing conditions. Despite this, the weather professional's forecast is still relied on to provide an accurate prediction of what to expect. In the case of this storm (as is typically the case), forecasts varied as to its ultimate timing and eventual severity (duration, snowfall, wind and cold temperatures). Such is the nature with forecasts – ultimately, they are just predictions and as we know, they can set us up for disappointment or worse. As humans, however, we are obsessed with the need to know, and never is that truer than with investing, where the landscape is littered with prognosticators with their predictions and forecasts. We will delve into this further following a brief review of market over the past quarter.

3Q'19 Market Review

Trade war concerns remained front and center with the market seemingly hanging on every bit of news from this ongoing saga. Added to these headlines were continued concerns around the Hong Kong protests, inverted bond yields, Brexit stress, and new to the line-up, impeachment stress…. you name it, there's plenty to think about. With all obstacles in play, markets ended the quarter mixed with US equities finishing slightly in positive territory and outperforming both non-US developed and emerging markets which both finished negative. REITS finished the quarter as the top performing asset class, continuing its run as the top returning asset class YTD. Bond returns were positive in the US with Intermediate corporates outgaining short-term corporates, and roughly the same result on the global front where long-term bonds generally outperformed short-term bonds. On the strategy front, value stocks bested growth stock in the US, but underperformed in both non-US developed and emerging markets. Small company stocks outperformed large cap stocks in non-US markets but underperformed in both the US and emerging markets (all *information courtesy of Dimensional Fund Advisors).*

If you wish to view a more detailed re-cap of the markets, please go to our website and see the full market review under the "News" tab. Below is a summary of broad market index performance for the quarter based on the asset class exposure in your portfolio:

	US Stock Mkt.	**International Dev. Mkts**	**Emerging Mkts**	**US Real Est.**	**US Bond Mkt.**	**Global Bond–ex US**
Q3'19	1.16%	-.93%	-4.25%	7.88	2.27%	2.83%
2019 YTD	20.09	13.57	5.89	27.21	8.52	8.78

Source: Russell, MSCI, Wilshire, Barclays and Citigroup

The perils of "tactical" market forecasting vs long-term strategy view

If you've taken our past advice about ignoring the onslaught of breaking market news and market predictions, then you probably didn't bother to read the Q4 market forecasts of two of the largest asset management firms in the U.S., Russell Investments and Blackrock. We're not prone to pore over these relatively unremarkable analyses ourselves, but we do scan a representative sampling of them as part of our due diligence. That's how we came across this intriguing contradiction in investment insight from these two industry giants.

Referring to the respective "asset class views" section of their respective reports, there was a glaring difference in their Q4 "tactical" or short-term US markets outlook. Blackrock states in their Global Investment Outlook Q4 2019 that:

> *"A supportive policy mix and the prospect of an extended cycle (business) underpin our positive view. Valuations still appear reasonable against this backdrop…."*

Meanwhile Russell has a direct opposite view in their 2019 Global Market Outlook – Q4 update:

> "*We have an underweight preference for U.S. Equities, driven by expensive valuations and cycle concerns around the trade-war escalation, fading fiscal stimulus and the yield curve inversion…"*

Though the two giants do have similar outlooks for international developed and emerging markets, they came at their stance through different reasoning (go figure!). Kind of makes it tough for investors who rely on this sage advice to make investment decisions when even the brightest minds on Wall Street don't agree - further evidence that trying to outguess the markets is not only difficult, but maybe even impossible.

We feel these sorts of reports speak inadvertent volumes about the evidence-based mantra to which *we* adhere. By depending on practical evidence instead of fanciful forecasts, our views are rarely subject to change – especially not in hurried reaction to current market conditions.

Relating this to your portfolio

Instead, we continue to believe the best way to manage your personal wealth is to:

- Buy, sell and rebalance your portfolio according to your own carefully crafted plans;
- Focus on an efficient, evidence-based approach to capturing the market's durable returns while managing its related risks;
- Ignore the market's daily distractions, especially its fleeting dips and rallies; they're far more likely to block the view toward your higher goals than to yield big wins through the chase.

This is our mantra, and so it shall remain – regardless of the time frame in question.

As you view your own performance data in this context, we remain eager to hear from you. How else can we help you achieve your greatest financial goals?

Sincerely,

Your PFM Advisory Team

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