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CAPITOL WEALTH MANAGEMENT LLC
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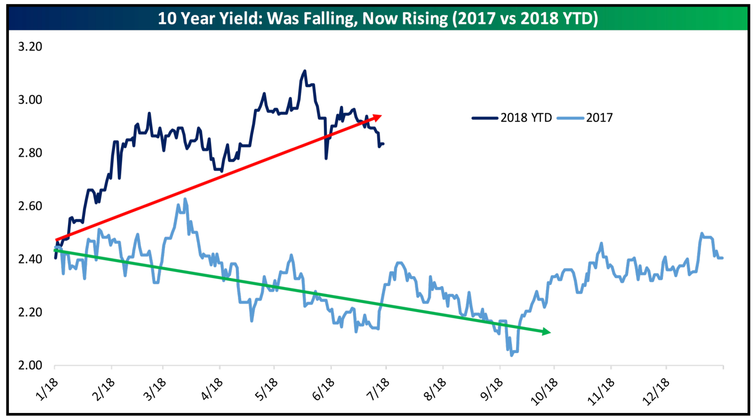
2018 Mid Year Review

By Keith Burbank



After a volatile first quarter that ended with stocks in negative territory, the S&P 500 returned 4.34% in quarter two. The smallest stocks in the S&P have significantly outperformed the largest stocks and domestic stocks have outperformed international stocks. Within the US, the Nasdaq has far outperformed the other indices with a return of 11.14% year-to-date versus the Dow at -0.13% and S&P at 3.30%. Being invested in Tech, Energy and Discretionary has helped investors while exposure to Staples, Financials and Industrials has hurt the most.

The return of volatility is one trend from the first half of 2018 that is in stark contrast to last year. After an extremely quiet 2017, 2018 has seen much more frequent large movements. Only 3.2% of days in 2017 had moves greater than 1% in either direction versus 29% in the first half of 2018. Increased volatility is typically somewhat bearish for equities but does present more opportunity for strategic sector allocation and stock picking. On the fixed income side of the market, yields continued to rise through the first half of the year. As the chart shows, yields fell for most of 2017, but since the start of the year they have been mostly elevated and rising. The rise in short term rates is beginning to make short term money markets an alternative to other riskier investments.

Economy - As the economy enters into the 9th year of its expansion, 3rd longest on record, GDP came in at a 2.0% annualized rate for 1st Quarter. This reading was slightly below the expectations, but above the 1.4% annualized rate for the same quarter last year. The employment picture remained strong with the unemployment rate falling to a low of 3.8%. As lawmakers ushered the new tax bill into law last year, one of the expectations they expressed was that corporations would use their tax break to increase wages and invest in capital improvements. While we’ve seen an uptick in capital expenditures since the tax cut, wage growth has continued to be relatively tepid despite the low unemployment. However, one early impact of the tax law has been an acceleration in corporate stock buyback activity. Through the first quarter of 2018, U.S. corporations set a record for most shares purchased in a quarter at $189.1 billion - a 38% increase from the previous quarter. While the share buybacks can benefit shareholders, they have no impact on wages or productivity. The buybacks instead have helped buoy the stock market amidst a challenging economic period, as a global trade and tariff war has created uncertainty in the markets.

Securities Ownership and the SIPC

By James G. Steproe, J.D.

"So, what happens to my money if the brokerage firm gets into financial trouble?" clients will frequently ask with concern, somewhat understandably. Aside from equity in their homes, these accounts often represent their life's work. To some, they represent the difference between a comfortable retirement and poverty, and for many it is too late in their lives to make a full recovery should they lose a significant portion.

For many of our parents and grandparents, they lived through the bank failures of the 1930's. Bank's failed and when they did their depositors failed with them. Yet these same depositors later felt confident enough to return their savings to the banks, with the understanding that the Federal Deposit Insurance Corporation, established in 1933, would guarantee their accounts up to a specified amount. Today it is about $250,000 for each account, but what about the value of your stocks and bonds should the brokerage firm holding them fail. How are you protected?

Unlike a bank deposit account, which represents an obligation to pay the depositor principal and interest under the terms of the account, a brokerage firm is simply holding their client's securities which are owned by the owner of the account. Quite simply put, they are not assets of the brokerage firm and cannot be seized by the their creditors. Indeed, you can, for any reason at any time, instruct the brokerage firm to transfer the assets to another institution. With that said, what happens if the securities in question have been lost, improperly hypothecated, misappropriated, never purchased, or even stolen? Or what if the firm simply does not have sufficient cash to cover the cash portions of their clients' accounts?

To cover just such a circumstance, Congress created the Securities Investor Protection Corporation (SIPC) in 1970. It is a federally mandated, non-profit, member-funded United States corporation. The legislation creating SIPC mandates membership of most US registered broker-dealers. SIPC serves two primary roles if a broker-dealer becomes insolvent. First, it acts to organize the distribution of customer cash and securities to investors. Second, to the extent a customer's cash and/or securities are unavailable, the SIPC provides insurance coverage up to $500,000 of the customer's net equity balance, including up to $250,000 in cash.

SIPC protection of customers with multiple accounts is determined by "separate capacity". Each separate capacity is protected up to the previously mentioned amounts, respectively. Examples of separate capacity include: an individual account, a joint account, an account for a corporation, an account for a trust created under state law, an individual retirement account, a Roth individual retirement account, an account held by an executor for an estate, as well as an account held by a guardian for a ward or minor.

Many investment accounts today exceed $500,000 in value. Some brokerage firms have purchased insurance to cover the excess. Fidelity, which is the firm we use at Capitol Wealth Management, has insurance that will pay in aggregate $1 billion.

I hope this brief explanation has given some comfort to the reader that while his or her investments can lose value, with limitations, it will not be due to the financial failure of the brokerage firm.