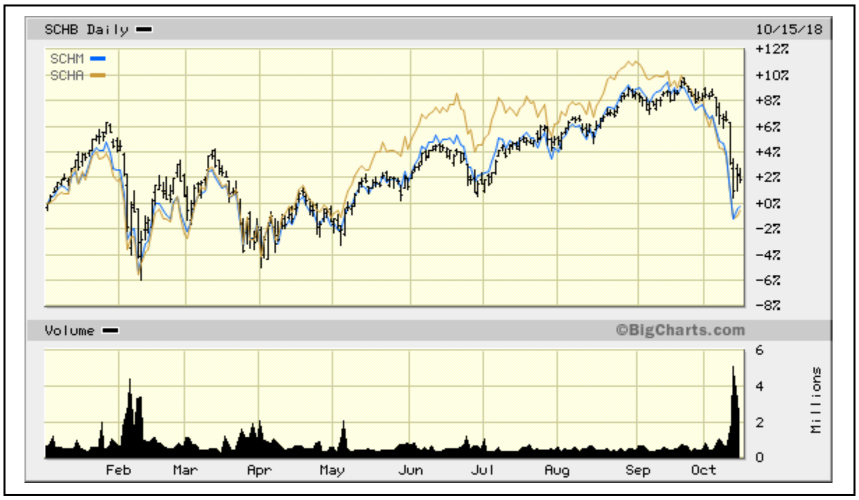
SWM INVESTMENT REPORT OCTOBER 2018

STEWART
WEALTH MANAGEMENT

We believe the markets should start to calm down after the significant spike on the fear index (VIX) last week. Market expectations for future Federal Reserve rate hikes have adjusted upward and higher yields on short-term bonds are making for greater competition for capital. What we are experiencing is a reset of pricing for both stocks and bonds based on latest interest rate policy. The US stock market pulled back 10% off the highs but we don't think it is time to run for the bunkers.




**SCHB=US Large Cap**
**SCHA=US Small Cap**
**SCHM-US Mid Cap**

All 3 index funds remain our favorite core positions for long term growth investors

While almost all economic indicators show there is little chance of recession, the Fed speak from Jerome Powell has everyone on edge (especially the President) about the continued increase in interest rates. The US economy is currently strong and Powell hinted at 4 more interest rate moves next year. Could four more rate hikes speed up the probability of a recession? YES, but we believe there will only be two more. The yield curve is flat and as data comes in over the next few months, things may change. If housing is slowing down and we still have low inflation, we feel like the Fed chairman will use common sense and change his tune by spring 2019. According to my favorite economist, Brian Westbury, "The odds of a recession happening anytime soon remain remote, (10%, or less). And a recession is what it would take for us to expect a full-blown bear market. In other words, the current downdraft is just heartburn, not a heart attack."

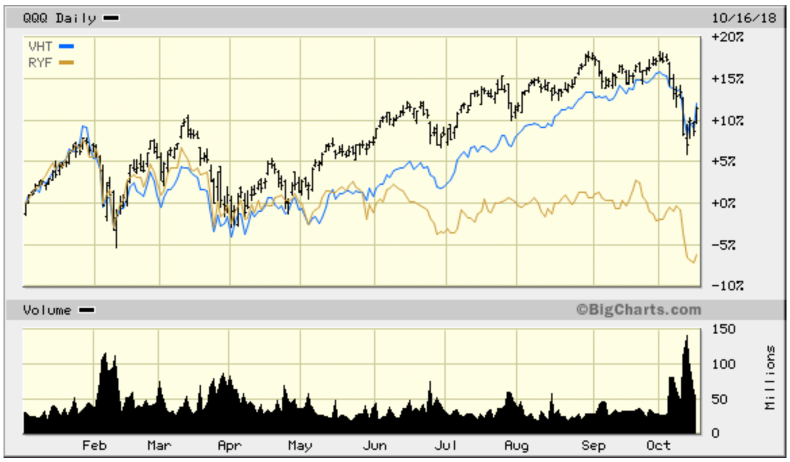
## Macro Positioning Favor U.S. Equities

At the macro level, we continue to expect robust U.S. economic growth driven by the U.S. consumer, tightening labor market, improvement in business sentiment, and tax policy measures encouraging investment. Consequently, we continue to heavily favor U.S. equities, versus international equity markets in client portfolios.

## Sector Positioning

Overweight Technology, Healthcare, and Financial Services

Information Technology is a pro-cyclical sector trading at what we still believe is a reasonable level, and that we expect to benefit from broad economic growth, especially increased capital spending on the part of firms. Within Financial Services, the potential higher interest rates and less regulation may increase estimates of banking industry profitability. Within Healthcare, we believe the outlook for accelerating innovation and increasing consolidation in the biotechnology industry provide potential for strong investment returns.




**QQQ= Nasdaq 100**
**VHT= Vanguard Health Care**
**RYF= Equal Weight Financial**

US Tech & Healthcare are still leading the way with sector momentum

Financials offer a contrarian play to buy the dip

"Not all Stewart Wealth Management purchase recommendations are included in this article. It should not be assumed that all future recommendations will be profitable."

## Equity-Income Style Positioning

Favor U.S. Dividend Payers and Value Stocks
Multiple ETF holdings within the domestic portion of the model emphasize dividend-paying stocks for both yield and lower volatility than international dividend-paying equities. Value stocks and dividend payers offer a decent entry point here.


**SCHD=Schwab Dividend ETF**

**FVD= Value Line Dividend Index**

**Both ETFs focus on dividend consistency and safety**

## Inflation Protection/Real Estate Allocation

We favor real assets such as real estate as potential inflation hedges. Direct real estate investment in apartment opportunities can offer tax efficient income with possible inflation protection that bonds do not offer. These investments are only available to accredited investors.

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