ABUNDANCE
WEALTH COUNSELORS

Market Intelligence

September 2018

Index	August Return	1 Year
MSCI ACWI	0.79%	11.41%
S&P 500	3.26%	19.66%
MSCI EAFE	-1.93%	4.39%
Barclay's Aggregate Bond	0.60%	-1.03%
Bloomberg Commodity	-1.77%	0.51%

U.S. stocks had their best August in 18 years as the Dow Jones Industrial Average rose +2.2%, the S&P 500 gained +3.0%, and the tech heavy NASDAQ climbing +5.7%. Although the NASDAQ and S&P 500 pushed to new highs during the month, they have since retreated due to the uncertainty around US trade policy. Much of the August climb was driven by tech stocks such as Apple +20%, Amazon +13% and Netflix +9%. Investors continued to pull money out of international stocks sending the Stoxx Europe down -0.8% and the Shanghai Composite fell -5.3%.

Economic reports were positive in August as well. Gross Domestic Product (GDP) grew faster than estimated in the second quarter, and after-tax corporate profits are accelerating faster than they have in the previous six years. The Federal Open Market Committee (FOMC) decided to keep interest rates at current levels, but indicated it is highly likely there will be a rate increase in September.

The Race to Zero

With the advent of exchange traded funds (ETFs) offering low internal expense, mutual fund companies have reacted by reducing their own fees, sometimes even lower than an ETF. Recently, Fidelity Investments announced a reduction in the expense ratios of several of their mutual funds.

Keep in mind, just because a mutual fund has lower expenses, doesn't mean it is a better alternative than an ETF. Mutual funds typically distribute capital gains more often than ETFs, making them less tax efficient. In addition, as ETFs trade like a stock, it is possible to take advantage of intra-day market swings, where mutual funds are purchased or sold at the end-of-day price.

When opportunities arise to reduce client expenses, we take action. One example is the ETF we had been utilizing for exposure to Treasury Inflation Protected Securities, or TIPS. When Fidelity reduced their similar TIPS mutual fund to a lower expense ratio than the ETF, we moved to the mutual fund. When comparing the two, they had a similar composition and historical returns, however the Fidelity mutual fund's expenses were one-quarter of the ETF (0.05% vs. 0.20%).

Bond mutual funds typically do not distribute many capital gains, and bonds do not have the daily volatility that a stock does. Therefore, we did not see a disadvantage of moving from the ETF to the mutual fund. Although our allocation to TIPS is small, this is just one example of how we continue to reduce portfolio expense, and thus allowing our clients to keep more of the return.