MODERA
WEALTH MANAGEMENT®

Modera Perspectives – Second Quarter 2018

Investment Commentary:

The second quarter of 2018 proved to be yet another good example of why we at Modera Wealth Management stress the importance of diversification and a long-term investment strategy.

During the past quarter, U.S. equities performance was positive, as U.S. small-cap stocks (as represented by the Russell 2000 Index) significantly outperformed large-cap U.S. stocks (as represented by the S&P 500) by almost 450 basis points. Meanwhile, international equity markets generally were down in Q2, with emerging markets equities (as represented by the MSCI EM Emerging Markets Index) hit particularly hard, off nearly 8% in the second quarter. Government bond prices (as represented by the Citigroup World Government Bond and Barclays U.S. Aggregate Indices) also were negative during the quarter.

Data ending 6/30/2018 (not annualized if less than 1 year)

Indices	Q2 2018	YTD	1 year	3 years	5 years	10 years
Equities						
MSCI ACWI (All Country World)	0.7%	-0.1%	11.3%	8.8%	10.0%	6.4%
S&P 500 (U.S. Large Cap)	3.4%	2.7%	14.4%	11.9%	13.4%	10.2%
Russell 2000 (U.S. Small Cap)	7.8%	7.7%	17.6%	11.0%	12.5%	10.6%
MSCI EAFE (International Developed)	-1.0%	-2.4%	7.4%	5.4%	6.9%	3.3%
MSCI EM Emerging Markets (International Emerging)	-7.9%	-6.5%	8.6%	6.0%	5.4%	2.6%
Fixed Income						
Citigroup World Government Bond (Global Bonds)	-3.4%	-0.9%	1.9%	2.8%	1.1%	2.1%
Barclays U.S. Aggregate (U.S. Investment Grade Bonds)	-0.2%	-1.6%	-0.4%	1.7%	2.3%	3.7%
Barclays Municipal Bond 5Y (4 - 6) (Municipal Bonds)	0.9%	0.3%	0.3%	1.6%	2.1%	3.5%
Barclays U.S. Corporate High Yield (U.S. High Yield)	1.0%	0.2%	2.6%	5.5%	5.5%	8.2%
Other Indices						
S&P Developed REIT (Global Real Estate)	7.0%	1.0%	5.7%	7.3%	7.8%	6.7%
HFRI FOF: Conservative Index (Diversifiers)	1.1%	1.7%	4.2%	2.0%	3.0%	1.2%

Why the divergence in performance? There are several possible explanations.

For equities the difference between both large- and small-cap stocks in the U.S., and between U.S. and international equities, may be partially explained by tariffs announced by the U.S. and other countries during the quarter. Higher tariffs will be an unexpected additional cost, particularly for large multi-national companies selling products globally. In addition, the recent rebound in the U.S. dollar vs. other currencies during the quarter also contributed to these performance spreads. When the value of the U.S. dollar increases, the earnings of multi-national companies with significant exports and international revenues are negatively impacted, because a stronger dollar makes American goods more expensive overseas.

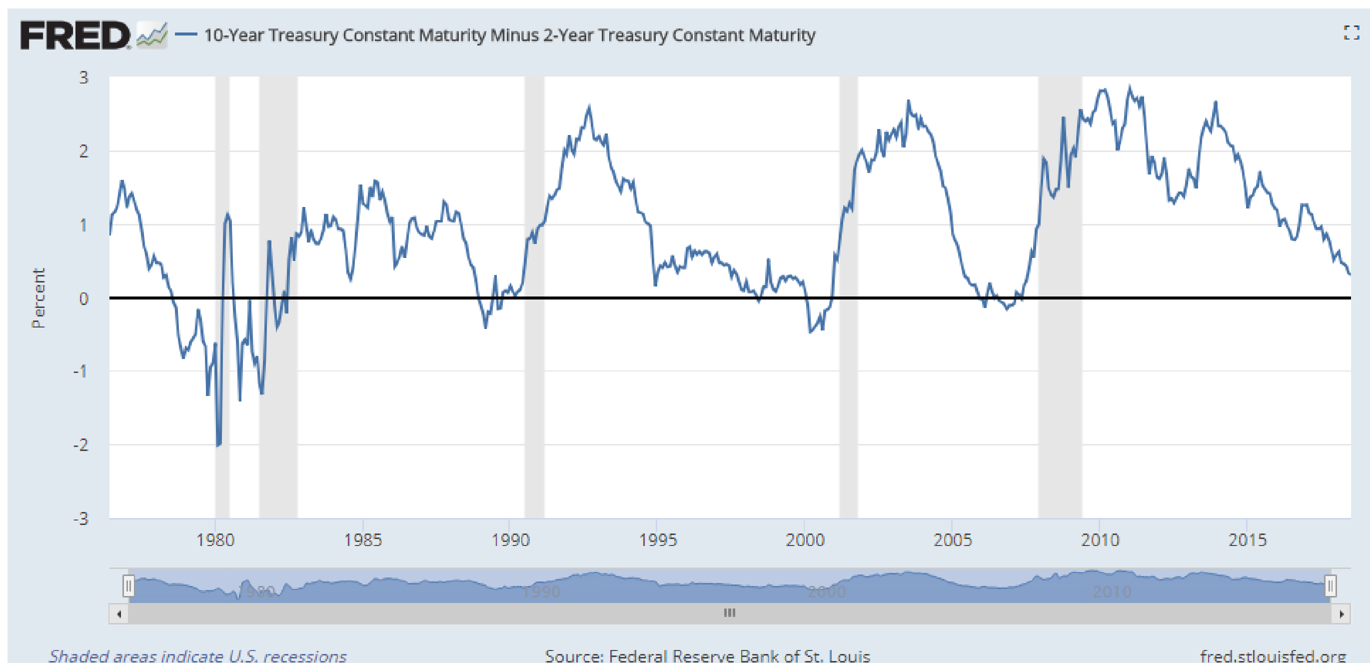
Smaller U.S.-focused companies usually are less dependent than larger, multi-national companies on international sales, giving them a relative advantage when either tariffs or currency movements create increased headwinds. Conversely, U.S. dollar strength typically hurts stocks of emerging market countries where debt servicing costs subsequently rise for many emerging market banks and companies with greater U.S. dollar-denominated debt.

Rising interest rates also played a role in the performance differential of both equity and fixed income markets. Bond prices are by definition negatively impacted by rising interest rates. Stocks, on the other hand, are often looked to as a hedge against rising interest rates.

Interest rates have been rising as central banks begin to unwind the decade-long global zero interest rate policy that was implemented as a result of the recession. The U.S. has been a leader in the normalization process with the Federal Reserve raising the Federal Funds target interest rate for the seventh time in the last three years, to a range of 1.75% to 2.00% in June. This interest rate normalization process can be healthy, as it is indicative of the Fed's confidence in the sustainability of the U.S. economic and employment trends. However, we expect U.S. equity and fixed income markets will be increasingly sensitive to both how much the Fed raises short-term interest rates from here and whether U.S. Treasury yield curve inverts.

A Closer Look at the Yield Curve

As a quick refresher, the yield curve is a graph that plots government bond yields across different bond maturities. The yield curve is upward sloping and considered normal when long-term rates exceed short-term rates across the graph. However, an inversion can occur when shorter-term rates exceed long-term rates, a scenario that historically has preceded economic recessions in the U.S. This relationship can be seen in the chart below. The Treasury yield spread, or difference between the 10-year Treasury bond and the 2-year Treasury note, is plotted in blue and provides a good proxy for the shape of the yield curve. The vertical grey-shaded areas represent recessionary periods in the U.S. The yield curve is inverted when the plotted blue line drops below zero percent on the vertical axis:



Implications:

While we continue to monitor these developments, we believe equity valuations remain supported by a number of positive fundamental factors, including the earnings tailwind of lower tax rates as well as strong economic indicators and corporate confidence. As can be seen in the historical chart above, there is definitely precedence for the 10-year-to-2-year Treasury yield spread tightening below 1% and remaining tight for several years without leading to a recession. We would need to see this yield spread

continue to contract toward zero or invert into negative territory before it could dampen our nearer-term outlook for the U.S. economy.

It is very hard to predict and be well-positioned for short-term swings in the markets or the economy. At Modera we take a long-term approach to investing, placing our focus on proper asset allocation, global diversification and risk management. While past performance cannot determine future results, the fact remains that global equities historically have produced positive mid-to-high-single-digit annualized returns over most 10-, 15-, and 20-year time periods. With this approach, our clients can be prepared to manage short-term swings in different markets, while staying focused on the potential for stronger risk-adjusted returns over time.

Financial Planning Perspectives

How to Prepare for a Homeowner's Insurance Claim

There's little to like about experiencing a loss of personal property in your home. But the process of recouping your loss can be made much easier by preparing and knowing what to do if you need to file an insurance claim.

Pre-Loss Preparation

Proof of purchase and supporting evidence of ownership provided to the insurance company are likely to boost a claim's credibility. Therefore, to help the claims process go smoothly, plan ahead, be organized and keep accurate records before a loss occurs.

There are a several steps homeowners can take ahead of time:

- **Create a home inventory worksheet** documenting the contents, descriptions and values of items in each room.
- **Make a video of** each room in the house and talk aloud about the items within. In addition to videos, take close-up photos at different angles of the more valuable items. Use the highest quality camera available, but newer mobile phones can usually take adequate videos and photos.
- **Keep all relevant documentation**, including receipts, credit card statements, instruction manuals with serial numbers, and one copy of the latest insurance policy, for reference. Put all hard copies in a fireproof safe.
- **Create digital file copies** of all of the above and save them in an online or "cloud" storage system such as Dropbox, OneDrive or Box. This way, regardless of the circumstances of the loss, these files will remain safe and accessible. It will also protect the integrity of the documents from their original state, as some receipts and other paper documents can be easily damaged or begin to fade.

Homeowners must review these preparations regularly, particularly if making larger-valued purchases in the interim. It is an ongoing process but worth the effort if you want to recoup losses.

Post-Loss Checklist

In the event of an actual loss, keep the following checklist handy. It can take some of the emotion out of a bad situation and help more efficiently implement the necessary steps toward loss recovery:

- **Take an inventory of losses:** Take pictures and make a list of destroyed, damaged or stolen property (including date and location of loss, where applicable). When possible, save a portion of the damaged property, such as flooring or carpeting, to help document the loss. Separate damaged from undamaged goods, prepare an inventory list of all items and resist throwing anything away (if you discard items, the insurance company may refuse to compensate you). Discuss salvage efforts with the adjuster before disposing of damaged property.

- **Review your insurance policy and make note of the policy number** prior to contacting the insurance company.

- **Notify the necessary authorities:** Contact your insurance company as soon as possible after a loss is incurred. In the case of vandalism, theft or injury, also notify the police promptly and retain a copy of any police reports. Bank and credit card companies may also need to be contacted, depending on the situation.

- **Keep a paper trail:** Retain and file all expenses and receipts of any property that is replaced. Insist on detailed invoices for all loss expenses. Write down and save the claims number that is assigned. Request all insurance-related information in writing (e.g., via email) wherever possible.

- **Don't make hasty judgements:** When losses are severe, avoid premature guesses, overly optimistic evaluations or quick settlements.

- Above all, **stay safe**!

While the above suggestions should prepare you under many circumstances, every situation is different and claims processes will vary by carrier. It is always advisable in pre-loss preparation to call the insurance company's service department and verify their particular guidelines for preparing for and submitting claims. For example, ask them if they require the replacement of the items (in which case they may require submission of receipts for reimbursement) or if they mail a claims check based on the size of the claim.

Planning ahead, being organized and maintaining good records in a safe place can all make a huge difference in smoothing the claims process. Please contact your Modera Wealth Manager if you have questions about your specific situation when it comes to preparedness for loss claims. We are always here to help and welcome your questions and comments.

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Thank you for your continued confidence and trust in our services.

Modera Wealth Management, LLC

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