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### Third Quarter 2019 Newsletter

We wanted to update you on important developments at Bernard Wealth Management Corp. In August, Andy Niedermeier joined the firm as a Wealth Advisor. Andy joins us after twenty years in financial services, including the last twelve at Charles Schwab, where he served as Managing Director of Strategy. Andy brings tremendous experience and energy to his new role as Wealth Advisor. He's currently studying for the Certified Financial Planner (CFP) designation.

In addition, we're in the process of upgrading our portfolio management and reporting systems. This will include a new client portal for information sharing and the ability to bring in data for accounts not directly managed by BWM, including 401(k)s. We're investing in talent and technology to ensure that we have the capabilities needed in the future to help our clients meet their financial goals.



Fig. 1 – S&P 500



Fig. 2 – U.S. 10-Year Treasury Yield

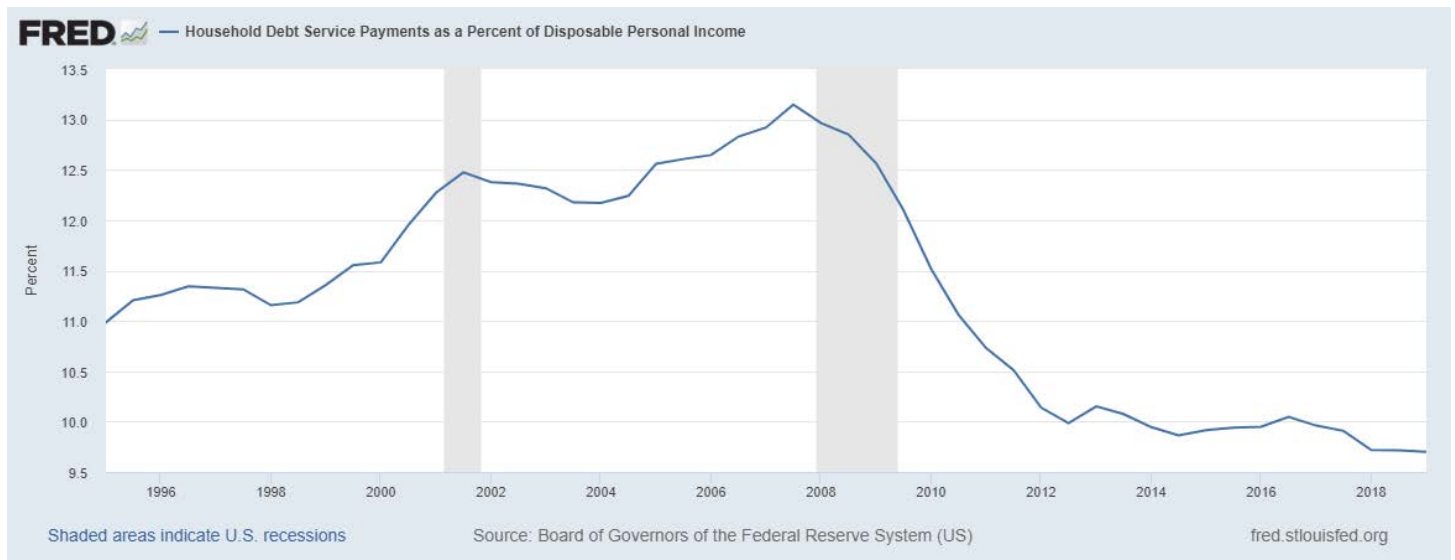
Stocks posted mixed results in the third quarter of 2019. The large cap S&P 500 index (**Figure 1**) posted a total return of +1.7% and is now up +20.2% year-to-date. The Russell 2000 Small Cap index fell 2.4% after a strong first half of the year. International market returns were mixed, generally trailing the U.S., after suffering heavy losses in 2018. Emerging markets fell 4.3% and developed countries outside the U.S. dropped 1.1%. International stocks continue to suffer from slowing growth overseas and the uncertainty engendered by the ongoing U.S.– China trade war.

S&P 500 earnings fell 0.4% in the second quarter, roughly equaling the first quarter's decline. These were the first consecutive quarters of declines since the first and second quarters of 2016. Analysts had expected a decline of 2.7% at the beginning of earnings season. According to research service Factset, 75% of S&P 500 companies topped earnings expectations, in keeping with recent trends. Fourth quarter earnings are now expected to grow low single digits. Earnings guidance in the next several weeks will be watched closely for signs of recovery.

Second quarter gross domestic product grew +2.0%, once again held up by strong consumer spending, as business investment contracted. Economic indicators in the third quarter were mixed. Manufacturing purchasing manager surveys began to indicate contraction, and service readings suggested slower growth. Tariffs and continued uncertainty over trade policy weighed on exporters, and some businesses appeared to hold off on investment plans. In response, the Federal Reserve cut its benchmark lending rate twice during the quarter. Employment remained steady, helping to bolster consumer confidence. Consumer retail spending was generally strong, although vehicle purchases slowed significantly at the end of the quarter. Housing provided a small bright spot. Both new home starts and permits topped expectations late in the quarter, and publicly traded home builders continued to report better than expected results.

*Index returns taken from Morningstar.com*

By some measures, the U.S. consumer is on more solid footing than before the previous two recessions (shaded areas of the graphs below). **Debt Service as a Percent of Disposable Personal Income (Figure 3)** is lower, and the **Personal Savings Rate (Figure 4)** has been trending higher. These trends may help consumers, who account for 2/3 of our economy, weather the manufacturing slowdown.



**Figure 3 – Household Debt Service as a % of Disposable Personal Income**



**Figure 4 – Personal Savings Rate**

Interest rates continued their steep decline through August, and then rose slightly in September (**Figure 2**). Fears of slowing growth, along with negative yields on debt in Europe, fueled demand for U.S. government and corporate bonds. Yields on U.S. government bonds are now close to historic lows, and the Federal Reserve may cut rates on short term borrowing again before the end of the year. Inflation remains historically low, helping bond investors stay ahead of cost of living increases. While bond returns in the near term are likely to be modest, fixed income investors may be best served maintaining the asset allocation, as bonds should still reduce portfolio volatility.

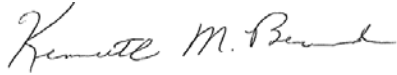
Overseas markets continued to lag as fears of slowing growth and trade policy uncertainty weighed on businesses and investors. The biggest exporters, such as Germany, have suffered the most. In the current environment,

underweighting foreign stocks has been a winning strategy, although long-term diversification calls for some international allocation.

This is a difficult time for stock investors, as slowing growth and negative headlines seem to dominate. For most people, staying invested will be the best course of action. It is famously difficult to time markets, and cash pays very little interest today. Achieving financial goals generally requires staying invested through good times and bad. At the same time, as advisors, we don't expect our clients to hold risk beyond their comfort levels.

We look forward to speaking with you in the coming months and hope that you are enjoying the change of seasons.

Sincerely,

A handwritten signature in cursive script that reads "Kenneth M. Bernard".

Kenneth M. Bernard, CFA