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FINANCIAL ADVISORS, LLC
Independent Registered Investment Advisor

Tweets and Tariffs Influence Second Quarter

An earnings season, which saw one of the strongest earnings growth rates on record at 25.7%, provided a nice fundamental backdrop for equities. However, the proverbial "wall of worry" continued to build within the second quarter with trade tensions and tariffs dominating the headlines. Add to those headlines rising oil prices, rising interest rates, a strong US dollar, and a slowdown in the global synchronized upswing. All of this news created a volatile market environment with very little progress made.

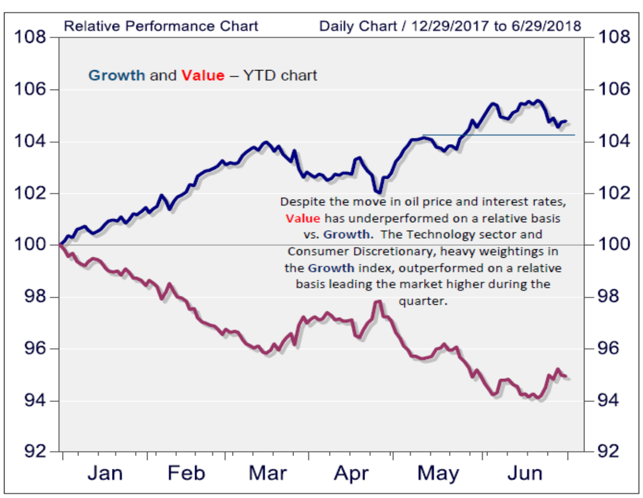
Despite these market related challenges, the US domestic economy is <u>still</u> getting stronger while the rest of the world is starting to fade. The US cycle appears to have room to run. While the expansion is old by historical standards, the low unemployment rate is at levels usually seen only at expansion ends. This cycle seems closer to mid cycle than late cycle.

US businesses are using their bolstered cash flows, tax cut driven, to repay debt and strengthen balance sheets, but also to invest in capital equipment. Rising friction between the US and its trading partners have been a periodic source of market volatility during the first half of 2018 and those tensions will likely persist.

<u>What about Tariffs?</u>
The standard tariff for importing cars to the US is 2.5% of their value, while the European Union charges a flat 10% on imported autos. For hyper ecological nations like Norway, residents of Oslo have to pay a 25% tax on top of the purchase price plus shipping cost due to the US auto's low fuel efficiency. A new 2019 Ford Mustang GT 500 is taxed so heavily in Norway that one Mustang might cost $250,000 US dollars vs. a list price in the US of $55,000.

2Q18 Performance: Gain in Relative Performance for Growth

Growth continues its strong relative performance gains in 2Q18. Overall, small-cap Growth is leading the way with 11.1% returns. Large-cap Value is the worst performing style losing 3.4% for the year. Technology regained its leadership position after losing some momentum in 1Q. Moreover, Consumer Discretionary gained relative performance, which has helped Growth. Despite Energy finishing as the best relative performing sector in 2Q, Value was hurt by weak relative performance in the Financials and Industrials.



S&P Styles
Year to Date (Price Return)

	Growth	Blend	Value
Large Cap	6.5%	1.7%	-3.4%
Mid Cap	4.1%	2.7%	1.2%
Small Cap	11.1%	8.7%	6.2%

Source: FactSet, RJ Equity Portfolio & Technical Strategy

Social Security Taps Trust Fund; Should You Be Worried?

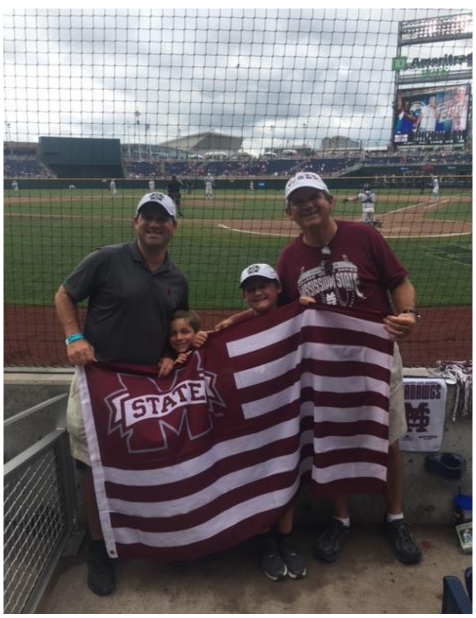
For the first time since 1982, Social Security is dipping into its trust fund to pay benefits. What does this mean for future recipients? - The board of trustees for Social Security recently issued their 2018 annual report. Once again, this year's report provided a dark reminder that the fiscal health of the program has further deteriorated. Like last year's report, Social Security's trustees said the program's trust fund would be depleted in 2034. However, unlike last year, for the first time since 1982, Social Security has to dip into the fund to meet its obligations. Treasury Secretary Steven Mnuchin said in a statement that "lackluster economic growth in previous years" and an aging population have contributed to the shortage.

What Does This Mean for You? - First of all, it's important to understand what all this dire talk really means. Over the years, as Social Security has collected more in taxes than it has paid out in benefits, the surplus has been put into a separate trust fund. The trust fund buys special U.S. Treasury bonds that earn interest for the fund. Up until this year, the payroll taxes plus the interest on the trust fund bonds have exceeded the amount needed to be paid out in benefits. This year's report showed that Social Security has now reached the point where benefits paid out to Social Security recipients exceeded total revenues collected from employee Social Security taxes plus the interest earned on its bonds. Now that the crossover point has been reached, the trust fund will begin to deplete, ultimately projected to run out in 2034.

While it's true that the Social Security trust fund could essentially go "bankrupt" in 2034 if no changes are made to the current system, the majority of Social Security benefits would still be funded through the ongoing Social Security tax system. Approximately three-fourths of the benefits paid out for Social Security are funded from tax revenues collected from current workers. The only purpose of the trust fund is to pay the difference when committed benefits exceed collected revenue.

So, if no changes are made to the system and the trust fund is totally depleted by 2034, what happens? The good news is that the system can continue to pay benefits from ongoing tax revenue and that revenue will cover most of the benefits. Social Security trustees continue to reiterate that the system should be able to pay approximately 75% of its benefits in 2034 even if the trust fund is completely exhausted. Therefore, while the headlines about Social Security continue to be scary, it's important to realize that the system going "bankrupt" does not mean all payments will stop; it actually means that 75% of benefits are still fully funded.

Dudley with Ryan and his two sons, Hastings and Paxton, at the College World Series cheering on the Bulldogs!



Ellison Bowen (daughter of Strider) raised $855 dollars for the local Animal Shelter by setting up a Hot Dog stand. We are so proud of you Ellison!

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