

# Atherean

## Wealth Management, LLC

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Enclosed is your portfolio summary report for the quarter ending September 30, 2018, as well as an investment advisory fee statement for the fourth quarter of 2018. The portfolio summary report shows the holdings in your accounts as well as an overview of the portfolio asset allocation as of the close of the third quarter of 2018. It also provides a summary of your investment objectives, time horizon, and risk tolerance as per our records.

### **Economic Review and Outlook**

Corporate earnings reports have for the most part exceeded our expectations, and the risk of a recession in the very near future remains low. While the near term risk of a recession remains low, we are concerned by the tight labor market and the pace of the Fed's hawkish actions. The spread on the 10 year – 2 year treasury yield curve is narrowing and approaching zero. An inverted 10-2 treasury yield curve has successfully predicted all three of the last three recessions. We are also concerned by the reduction in capital expenditures in the last reporting period. Many indicators are pointing to an imminent peak in the business cycle.

### **Equity and Fixed Income Market Performance, Pricing and Valuation**

Although most equity market indices continued to climb higher in the third quarter of 2018, with the S&P 500 index up 8.94%, the Russell 2000 small cap index up 10.55%, and the MSCI EAFE (Europe, Asia and Far East) index down 3.30% year to date as of the end of the third quarter, October was one of the worst performing months for equities which we have seen since Atherean Wealth Management began operation in March of 2014. In the past few weeks we have seen the technology heavy NASDAQ Composite Index enter correction territory. We emphasize how important it is, though, to keep this decline in perspective. Equity markets had superb performance in 2017, and as we discussed in our Q4 2017 letter, equity market returns vary significantly from year to year, but remain positive over the long run.

The bonds market continues to have a lackluster year with the Barclays Aggregate Bond index down 1.73% year to date as of the end of the third quarter, on a total return basis. We believe that we are now in an inflationary, rising interest rate environment and have been deploying fixed income assets toward the shorter end of the yield curve.

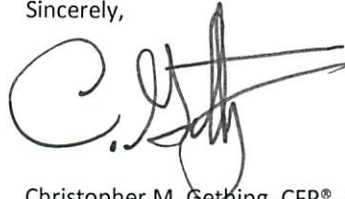
We continue to have concerns related to many growth stocks, as governments and regulatory bodies throughout the world are beginning to impose new and more burdensome taxes and regulation onto many of the highflying companies in the technology sector. We are also concerned by the impact which rising interest rates will have on the valuations of highly priced technology and other growth shares. If we follow the logic that stock valuations are based upon the present value of future earnings, then rising interest rates will have an immediate, significant, negative impact on technology and other growth stocks, a large portion of whose valuation is based upon their discounted earnings in the distant future. Rising rates will have a lesser (negative) impact on the valuation of more reasonable priced value stocks, whose value is more closely tied to current earnings and earnings in the near future.

## Portfolio Management

As both an asset allocator and an asset manager, we use both a top down and a bottom up approach when managing your accounts. We employ a top down approach in allocating assets across various uncorrelated asset classes and a bottom up approach in seeking to represent each portfolio asset class with instruments which are attractively priced with respect to their intrinsic value. Although we remain vigilant with respect to the economic outlook and equity and fixed income market pricing and valuation issues which we describe above and are consistently seeking attractive opportunities, we typically do not attempt to time the market with respect to how we allocate your portfolio assets overall. We will continue, as always, to take a long-term view and focus on maximizing the risk-adjusted return of your portfolio with respect to your time horizon, risk tolerance and liquidity needs.

Let us know if there are any changes to your financial profile or investment objectives. If you would like to review your portfolio and/or financial plan in greater detail or have any other questions or concerns, feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Getting', with a large, sweeping horizontal stroke extending to the right.

Christopher M. Getting, CFP®, EA

Atherean Wealth Management, LLC