THE PERSON WRIGHT
FINANCIAL GROUP
of Wells Fargo Advisors

6320 S. Western Avenue, Suite 100| Sioux Falls, SD 57108
Bryan Tel: 605-274-2313 | Jesse Tel: 605-274-2318 |Alex Tel: 605-274-2317
personwrightfinancialgroup@wellsfargoadvisors.com

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After the down year we experienced in 2018, so far in 2019 the S&P 500 has been positive each month through April, providing a drastic rebound from the December 24, 2018 low. We hit all-time highs on the S&P 500 again this month at 2954 (we started the year below 2500). We believe we can attribute the rebound we've seen to better than expected employment and wage growth numbers, trade tensions with China were subdued until recently, first quarter earnings and US GDP data was stronger than forecasted, and the Fed's stance on keeping rates level has pushed bond prices up for the year. All of these factors have helped to contribute to the stock and bond markets positive start to 2019. With all that being said, the question on many of your minds is where does that leave us going forward?

Let's start with answering that question by discussing what The Person Wright Financial Group (PWFG) has done in anticipation of potential market volatility. In mid-April with the market quickly approaching all-time highs, we made the decision to lock-in some equity gains; this was the activity you may have seen on your April statements. Many of you hold one of our all stock portfolio models. To reduce market risk we took between 5-10% of the stock exposure off the table. Those funds are currently being held in a high yielding institutional money market fund (~2.5%). In addition, our diversified, risk-based portfolios rotated roughly 10-15% out of stocks and allocated the proceeds into fixed income investments, which drastically decreased portfolio beta (volatility/risk measure) and increased the portfolio income potential. As the PWFG investment philosophy states:

"Although we are not market timers, we challenge ourselves to use current economic data and changing market events to potentially reduce volatility when applicable."

NOW, let's discuss the current elephant in the room – China! Many of you are probably reading this letter thinking "Did you not see the last few weeks?" Or, "Are the China trade talks going to derail the economy and bring my account even lower?" Once the news broke that trade talks were stalling and additional tariffs were being put in place the market had one of the worst days of 2019 potentially leading May to what could be the first negative month of 2019. Of course it could go lower. We remind you that 5-10% declines are very normal intra-year. The S&P 500, as we write this letter, is only off the all-time highs by 3.83% (2841)*. The market needs to reset occasionally and reevaluate current economic and market data.

We find it important to stay focused on the bigger picture. From our perspective, with all of the positive news the market has seen so far this year, many investors have been looking to take some gains, and the news on China has been exactly what some of them needed to pull back some stock exposure; we did. Fortunately, we just made the rotation before the China talks faltered. Despite the pullback we experienced, the S&P 500 remains up 13% year-to-date as of May 13, 2019 (after the really bad day)*. What's even more important to dive into is the effect the tariffs could have on the economy. While we agree that a trade war is not a positive, sometimes temporary pain can lead to mutually beneficial outcomes in the long run. In 2018, the US exported $180 billion in goods and services to China. These exports accounted for roughly 0.9% of our gross domestic product (GDP). China on the other hand, exported $559 billion in goods and services to the US, accounting for 4.6% of their GDP**. As you can see, our purchasing power provides us leverage. What these numbers tell us is that although the China trade talks will certainly attract headlines and create ripples through capital markets, the effects are not quite as drastic on the broader economic outlook. If the US economy can remain healthy (consumer spending remains strong due to employment and wage growth), we think any price increases due to tariffs could be absorbed and may not impact corporate profits which ultimately drive the price of stocks.

Let us sweat the headlines. As we previously mentioned, we have taken some risk off the table in April and will look for opportunities to reinvest the cash we have on hand in the future. If you have any questions, please do not hesitate to contact us as we appreciate the conversations we have with you and any clarification we can provide.

Sincerely,

Bryan Person

Bryan Person
PIM Portfolio Manager
Managing Director - Investments

Jesse Wright

Jesse Wright, CRPC®
PIM Portfolio Manager
Senior Vice President - Investments

Alex Person

Alex Person
Financial Advisor

Marcia Bucher

Marcia Bucher
Senior Registered Client Associate

Allie Underberg

Allie Underberg
Senior Registered Client Associate

* Source: Bloomberg.com S&P 500 Index quote.
** Source: Wells Fargo Investment Institute Daily Market Update. May 14, 2019.
*** Source: First Trust Monday Morning Outlook. May 13, 2019.