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ADVANCE CAPITAL MANAGEMENT

FINANCIAL LIVING

volume Q2 2018

A QUARTERLY NEWSLETTER FOR THE CLIENTS AND FRIENDS OF ADVANCE CAPITAL MANAGEMENT

Why Our History Working with AT&T Employees Matters

A frequently asked question we get is: What's your connection (no pun intended) to AT&T?

This comes from both people employed by the telecommunications company and those who are not. The answer though matters to all our clients and friends.

That's because our core principles – building trusting relationships, putting clients first, taking a low-cost investment approach, et al. – come from our history with AT&T. And, we think those long-standing principles are what separates us from other advisers.

OUR AT&T HISTORY

We were founded by three former Michigan Bell executives: Ray Rathka, John Shoemaker and Bob Cappelli. (Bell eventually became AT&T.) While working on the company's pension fund, they found that many of their colleagues needed help navigating their retirement benefits and managing their retirement savings.

So, in 1986, they decided to do something to help. They resigned from their jobs, set up a small, shared office in Southfield, Michigan, and opened Advance Capital Management. Their vision was not only to help their friends and former colleagues of Michigan Bell, but also to build a financial-advisory firm that always puts the client above the bottom line.

From the start our guiding principle for working with clients was: Care for people and their needs in the same way you would a family member or close friend.

MONEY MANAGERS

Money manager hopes new mutual funds will bear up

It's why, when meeting people for the first time, our advisers spend a lot of time asking questions. It's important to us to understand someone's needs, hopes and challenges. It's what it takes to build a trusting relationship. As a registered investment advisor, we are a fiduciary, which means we are legally obligated to serve each client's best interest, at all times. But, it was our philosophy on day one and it has never changed.

One thing that has changed is the finance industry. It was vastly different in our early days, when investment options were much more limited for investors.

Our trio of founders thought many of the investment fund options available at the time were too expensive and had poor results. They didn't want to guide people that trusted them into costly, inefficient investments.

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Market Insights: Q1 2018

As the year began, the synchronized global expansion, which shifted into high gear late last year, was intact and appeared sustainable. The U.S. expansion will become the second longest on record this month.

In certain respects, we are witnessing a Goldilocks-type period, not only for the U.S., but for the global economy. Growth across most world economies is running modestly above trend. Meanwhile, inflation risks are only slightly higher than average and still relatively tame. However, this equilibrium is at risk of being disrupted. Central banks around the world have begun tightening monetary policies and a strong dose of domestic fiscal stimulus is taking hold due to the recent individual and corporate tax cuts. While solid growth is a near certainty for the remainder of 2018, the sustainability beyond the next few years is in question, considering the potential for heightened market volatility if growth underdelivers, inflation picks up or geopolitical tensions accelerate.

U.S. Economy Gets More Fuel in the Tank

In the U.S., the recent tax cuts have boosted consumer and business spending power. At the same time, unemployment claims have fallen to an almost five-decade low. Economic growth appears on track to accelerate to around 2.5-2.8 percent for 2018. While still slightly below its long-term average, it is much improved from a few years ago. Along with tax cuts, households are benefitting from intensifying labor scarcity, which has directly translated into higher wage growth. Further, households have reduced their savings rate, thereby transferring these gains directly into consumption. Business demand is also improving, helped by a combination of strengthening "animal spirits" and rising capacity constraints.

The latest composite Institute for Supply Management (ISM) index, which comprises both manufacturing and non-manufacturing sectors, spiked to the highest level since 1997. In particular, the manufacturing sector showed a sizeable increase in new orders, which hit a cyclical high recently. Supplier deliveries also showed a healthy increase, but a retracement in the employment component could reflect that the short supply of labor is becoming a more acute issue in several industries. The ISM surveys are meaningfully correlated with economic growth, and these latest results imply an acceleration in growth for the year ahead.

This relatively healthy environment and positive growth trend has led to an uptick in inflation, which has not gone unnoticed by the Federal Reserve. Newly elected Fed Chairman Jerome Powell appears a bit more hawkish than his predecessor, but he will be cautious not to stifle the economy. In mid-March, the Federal Reserve lifted short-term interest rates for the fifth time since December 2015. At least two additional rate hikes are anticipated over the course of this year and possibly two in both 2019 and 2020. Further, the unwind of years of Quantitative Easing, in which the Federal Reserve's balance sheet became bloated with U.S. government debt, is just starting and could further pressure interest rates in the coming years.

Market Volatility Picks Up

Though the economic environment remained positive and inflation relatively calm, the combination of action taken by the Federal Reserve along with rising geopolitical tensions and newly enacted tariffs led to heightened volatility in the capital markets during the quarter. For instance, the S&P 500 jumped 7.5 percent through January 26, then proceeded to fall 7.7 percent from that high point to the end of the quarter. Other major domestic and international equity indices followed a similar pattern. In the bond market, U.S. Treasury yields spiked higher, with the 10-year bond yield up about 0.5 percent for the quarter. In general, investors' risk appetite waned a bit, which produced flat to negative returns across most sectors of the bond market.

Our Take

Looking forward, after nearly a decade of economic expansion, the U.S. economy appears to be on a self-sustaining path for the near future. The employment environment is very solid, consumer confidence is soaring, and retail sales are picking up. However, with the ever-improving jobs market and stronger economy, wage inflation is expected to rise further as the year progresses. The recent corporate and individual tax cuts should move the economic growth engine and provide additional support for corporate earnings, which are expected to rise about 15 percent for this year. Amidst these many positives, we are mindful of the growing risks that could disrupt world economies and markets, including: trade wars, rising interest rates and geopolitical tensions. In this environment and after many years of above-average investment returns, we continue to take a slightly more conservative view on the markets. We view domestic equities as fully valued, while many inter-

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It is not possible to invest directly into an index. The indices mentioned in this article are unmanaged and are not affiliated with Advance Capital Companies.

AT&T Friends: Is Now the Best Time to Retire?

With the economy on the upswing, so is the rate AT&T uses to calculate pension payouts. That means, if you're an AT&T employee who may retire soon and would like to elect a lump sum, your payout could be a little larger now than it would be if you retire next year or in the near future.

The rate officially changes in November, which makes now a great time to start planning so you can better ensure that you make the right decision of when to retire. There are many more factors besides your pension to consider before you decide, such as your AT&T 401(k) savings, Social Security, other income sources, marital status and more.

If you have any questions about your pension or would like us to help you build a sound retirement plan, please contact us to arrange a meeting or telephone conversation. ■

Why Our History Working with AT&T Employees Matters *(Cont. from page 1.)*

Again, they decided to do something to help. In 1987, Advance Capital released its own family of mutual funds with the purpose of trying to provide a better investing experience for clients.

Investing with the client in mind is a core principle of our conflict-free investment process: provide objective investment advice and find the most appropriate investments to help meet a client's specific financial goals.

Today we have a dedicated in-house investment team that actively searches among tens of thousands of investments for those they feel will best serve our clients. We think offering financial planning and investment management services under one roof is greatly beneficial to people. It gives you the convenience of not having to translate the opinions of separate financial advisers and planners.

It's also a matter of cost. We believe in taking a low-cost approach to building wealth. From our start with AT&T employees, we knew personally the hard work that went into each dollar saved for retirement. Therefore, our goal has been to provide more for less, so clients have more of their hard-earned money working for them.

Since our founding, we've helped thousands of AT&T employees with all aspects of their financial lives. From managing their 401(k) plan and choosing their pension payout to saving for their children's education and claiming Social Security.

Our origin has given us a unique perspective of AT&T's retirement benefits. We've studied them inside and out. We know how much they've changed over the years, and we continue to stay abreast of any new developments. Many of our current clients are former AT&T or phone company employees and we remain committed to helping them achieve a comfortable retirement.

Perhaps more important, our history with AT&T matters because it is the origin of the core principles that shape how we serve all our clients. Sure, we could have simply chosen these principles regardless of how we were founded. But, then we would have just been adopting them. This way, they are genuinely who we are. ■

The Grand Rapids office is relocating this summer!

Our new location will be:

625 Kenmoor Avenue, Suite 307

Grand Rapids, MI 49546

We will be sure to notify you as soon as we have officially moved into the space!

Decoding the Headlines

Financial news is often full of hyperbole and economic jargon. It can be hard to understand what it all means for you and your money. Here, we breakdown a few of the most recent financial events making headlines.

THE WALL STREET JOURNAL.

Delayed or Not, Tariffs Are Already Squeezing U.S. Companies

Ambiguity surrounding trade talks threatens to put the brakes on corporate spending

Tariffs are taxes or duties to be paid on certain imports or exports. They are generally meant to help protect home-based companies. But, they can also do the opposite by making imported raw materials more expensive or starting a trade war between nations. Therefore, tariffs can disrupt economies, and, subsequently, capital markets. Because of the harm tariffs can cause, they are often proposed as a negotiating tactic to adjust trade relations. Proposed tariffs may never be enacted or, as is often the case, less damaging than feared. Therefore, they should not be a consideration for your long-term investment decisions.

USA TODAY

Fears of market volatility swell as stocks plunge

Whether the stock market closes at an all-time high or a steep drop, on any given day you can find someone in the news predicting trouble ahead. The fact is, markets don't move in a straight line. **Market volatility**, the rise and fall in the stock market, is normal. And, **market corrections** (a drop of 10%) are not rare. Consider that since 1980 the average market decline in any given year is 14.1%. **Market crashes** (a drop of 20% or more) can happen, too. But what's important to remember is that markets have historically always recovered. So, when you see a sky-is-falling take on the news, your best move is to just change the channel.

CNBC

Fed holds rates steady but points to higher inflation

As the central bank of the United States, **the Federal Reserve** (commonly referred to as "the Fed") is tasked with promoting the health of the nation's economy. With that goal in mind, the Fed lowered **interest rates** in the aftermath of the 2008 crisis in hopes of facilitating a quick economic recovery. Now that the economy is stable, the Fed is returning interests rates back to historically normal levels to prevent a sharp rise in **inflation**, or an increase in the prices of goods and services. But, it pledges to do so at a cautious pace to not disrupt markets. Hence, we continue to look at investments that may be less sensitive to rate changes and may perform better in an economy with higher rates and/or inflation.

Market Insights *(Continued from page 2.)*

national and emerging market equities appear to have more upside. In bonds, rising rates will likely continue to depress long-dated and government-related security returns, which is why we favor bonds with lower duration and more diversification across the credit spectrum.

As always, investing in the capital markets comes with some risk and uncertainty. We thank you for your continued support of our investment process as we work hard to deliver positive risk-adjusted portfolio returns to our clients. Should you have any questions, please do not hesitate to reach out to your financial adviser.

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