



INSIGHTS

quarterly newsletter from RKL Wealth Management LLC

A Message to Our Clients

Contributed by: Judson S. Meinhart, Wealth Advisor

"May your choices reflect your hopes, not your fears." - Nelson Mandela

The summer vacation is a cherished annual ritual for many families. No matter the destination or the itinerary, it's an opportunity to recharge, refresh and disconnect from the daily rigors of life. Post-vacation, our re-entry into the real world is eased by recounting tales of vacation sun, fun or adventure to our slightly envious friends and colleagues. These recollections are filled with the details, like where we went or what we did, but we are often less inclined to discuss the most important aspect of the trip - why we took it in the first place - making memories with our families and enjoying time with loved ones.

At RKL Wealth Management, our approach to providing financial advice is similar in that we focus on your why. Over time, the why of your financial life can change and your RKL Wealth Management team is here to join you in that journey. Whether you've experienced recent life or financial changes or simply want to check in to assess your progress towards your goals and objectives, we encourage you to contact us for an update and review with your wealth team.

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Market & Economic Update

By: Nicholas A. Boyer, Chief Investment Strategist

Perhaps the most remarkable feature of the second quarter of 2017 was how much seemed to change, while financial markets and the economy fundamentally stayed the same. Despite another spate of dramatic news events (global cyberattack, UK terror attacks, Comey hearings, record high in Bitcoin, U.S. healthcare reform crumbling, etc.) the global economy continued to improve, equity markets continued to rise, yields remained low and, despite some hawkish talk from central bankers, global monetary policy remained accommodative.

Nevertheless, as we begin the third quarter, very real risks remain in the market and the economy, from elevated asset prices to sluggish growth in various key countries around the world to geopolitical tensions in the Middle East and the Korean Peninsula. (continued next page)

Market & Economic Update

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Inflation MIA? No, It's Hiding in Plain Sight...in Asset Prices

One of the foremost concerns among investors has been the slow pace of growth and inflation in the United States. In fact, on the day of the Federal Open Market Committee's (FOMC) most recent decision in June, investors became concerned that a soft inflation number – the Consumer Price Index (CPI) came in at 1.9% for May – would spook the Fed and ultimately cause them to hold off on a rate hike that was largely priced into the market. Instead, the Fed proceeded to raise the Fed Funds target rate by another 25 basis points. Federal Reserve Chairwoman Janet Yellen commented, in what was perceived by the market as hawkish, that declines in inflation figures were only “transitory.” Some investors thought this was at odds with her comments from March, which were perceived as dovish, in which she similarly dismissed increases in inflation as “transitory.” Interestingly, by following the same script regardless of whether CPI readings were increasing or decreasing, Chair Yellen seemed to imply that other factors – beyond the rather capricious monthly index readings – are more important to the Fed's assessment of inflation. This is where asset prices come in. The Fed watches the markets closely and factors financial market conditions into their decision-making process, and it appears the FOMC is becoming concerned about asset prices, evidenced again by Yellen's recent comment that valuations are “somewhat rich” by traditional metrics. While this not only supports the view the Fed will continue to tighten monetary policy, it also raises the question of whether asset prices are at risk in the near term.

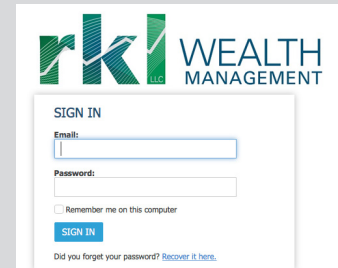
High Valuations Matter, But for Now, Earnings Matter More

Investors, analysts and pundits have spent much of the nearly 10 years since the financial crisis debating whether asset valuations are too high, but the debate is over and really has been for some time now. Valuations of multiple categories of financial assets, including U.S. equities specifically, are historically high. Among the greatest challenges for investors, however, has been the fact that valuations haven't seemed to matter for some time now.

In the second quarter, both U.S. and global equity markets again delivered strong total returns, with the S&P 500 adding another 3% and the MSCI All Country World Index (ACWI) adding over 4%. As of the time of writing, the YTD total return of the S&P 500 and ACWI are 8.8% and 11.4%, respectively. Additionally, following up a strong first quarter the MSCI Emerging Market Index added another 6.3% in total return in the second quarter, with a current YTD total return of 18.3%.

Most companies have benefitted from steady, albeit slow, economic growth as they've enjoyed a combination of positive top line growth and minimal cost pressure given limited wage growth. As a result, corporate earnings continue to climb gradually while the near-term outlook remains strong with most analysts forecasting more than 4 to 5% growth in S&P earnings for FY2017. Despite the absence of any of the highly anticipated fiscal stimulus, the presence of solid earnings growth remains an important but perhaps underappreciated subplot, yet one that certainly still matters for long term investors. (continued next page)

Introducing our New Client Portal for Online Access



We are pleased to announce that we will be rolling out a new Client Portal, where you will be able to view your investment accounts in a secure environment. The portal is easy to navigate and will provide you with a variety of investment type reports specific to your accounts.

To set up your Client Portal access, send an email to operations@rklwealth.com containing the email address you would like to use to access the site. Once our operations team sets up your account, you will receive an email with login instructions for our portal site, rklwealth.portal.tamaracinc.com, and your username and temporary password. You will be prompted to create a new password upon entering the temporary password.

We are proud to bring this improved technology to our clients. We also understand this is a new process that may prompt questions. Our Operations Manager, Stephanie Etter, is available to answer any questions or provide additional information - you can reach her at 717.399.1700.

Market & Economic Update

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It's Not Cash but Money That's King

While the Fed and other foreign central banks have done some hawkish posturing of late, there is little doubt that global monetary policy on balance remains extraordinarily accommodative. In the U.S., the Federal Reserve has continued to gradually hike interest rates and has begun plans for reducing its balance sheet, however, its holdings of U.S. Treasuries (UST) and mortgage-backed securities (MBS) remain at unprecedented highs. We believe this is important because even while the Fed has signaled its commitment to a new tightening cycle, it has yet to have a significant impact on the money supply. Meanwhile, globally there are few, if any, central banks in a position to even consider tightening monetary policy faster than the Fed, given a combination of a nascent global recovery and exceptionally low real yields overseas.

So, while growth in the money supply has no doubt slowed, it may be that until such time as the Fed actively begins selling large relative quantities of UST and MBS – rather than simply balance sheet run-off – the money supply will remain at unprecedented levels. Further, perhaps a meaningful reduction in the money supply is the only macroeconomic occurrence that truly “moves the needle” for either stocks (see chart) or bond yields (could potentially result in a steepening or an inversion of the yield curve, depending upon underlying economic growth). Accordingly, we will be keeping a close eye on these figures, monitoring any developments and updating our strategy and outlook as necessary.

Outlook: Still See Reasons for Optimism for Patient, Long Term Investors

A recent article by InvestmentNews entitled “Preparing clients for the coming market correction” warns that “now is the time for advisers to be taking steps to prevent client angst or panic when the market correction comes.” While this is no doubt prudent advice, it could be relevantly applied at any time, given that no one ever truly knows whether a correction (defined as a 10% decline in equity prices) is near. Ultimately, we won't be so bold as to try to predict a correction. Moreover, we believe it would be hard to find conviction in the merits of an equity market sell-off in an environment where monetary policy remains so clearly accommodative and companies continue to grow their earnings – especially if fiscal stimulus finally comes or economic growth picks up.

As always, we will continue to closely monitor developments in financial markets and the economy, and encourage our clients to reach out at any time to discuss our strategy and individual portfolios in further detail.



Source: Bloomberg (Chart includes price of the S&P 500, Federal Reserve's M2 measure of the money supply and a seasonally-adjusted index measurement of the U.S. Consumer Price Index)

4 Money Musts for Recent College Grads

By: Thomas D. Reardon, Wealth Advisor



It's college graduation season, which means a new crop of young adults will transition from the dorm room to the conference room. This new phase of life offers many exciting opportunities, but it also brings new financial responsibilities like student loan repayment, taxes and more. As new grads navigate the uncharted waters of adulthood, here are some tips to start off on the right foot and pave the way for a successful financial future.

Build a Budget and Track Expenses

As students, most young adults lived pretty frugally. As recent grads, keeping that frugal mindset is a huge advantage. This doesn't mean sticking to the ramen noodle diet, but it does mean creating a budget and tracking expenses.

Those new paychecks may be tempting to spend, but living within your means and spending money intentionally sets the financial foundation for young adults to tackle other financial challenges, like student debt. There are a number of budgeting and expense tracking apps that can help with this process.

Start Saving for Retirement

For recent grads who consider making weekend plans a long-term commitment, retirement can definitely seem like a remote and distant concept. Thanks to the power of compounding interest, however, saving early and often pays off exponentially down the line. Many employers auto-enroll their employees in a retirement plan, but if yours does not, make sure to sign up on your own. When setting a contribution amount, try to reach any employer match limits. Otherwise, you're leaving free money on the table, so it is definitely worth skipping a few dinners with friends to find room in your budget. Most importantly, avoid taking this money out early and use caution if you are considering it, because it could have major tax implications and can hurt future investment potential.

Set up an Emergency Fund

Despite the best budgeting intentions, unexpected or emergency expenses do happen. Young adults can prepare to absorb these financial blows by setting up an emergency fund. This should be a dedicated item in your budget, and be sure to keep this money separate from other savings or checking accounts so it is not spent until absolutely necessary. The ideal emergency fund should be approximately six times your monthly income, but for now, starting small can save your bank account or credit card from the aftermath of car troubles or unexpectedly high medical bills.

Manage Debt Wisely

Few students make it through higher education without student debt, and those bills come due not long after graduation. Income-based repayment, which links monthly loan payments to income, not total debt, is one way to manage debt payments. Young adults with numerous loans should explore consolidation for convenience and potentially lower payments. With student loan obligations hanging over them, recent grads should proceed with caution when it comes to taking on other consumer debt. It's all too easy to rack up credit card debt furnishing a new apartment or adding to your debt load with a loan for a new car. Stick to your budget and develop a plan to set aside the funds for these purchases.

The transition from college to the working world can be daunting, but following these steps can help recent grads form good financial habits that will pay dividends throughout their lifetimes.

IMPORTANT CONSIDERATIONS

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RKL Wealth Management LLC is a registered investment adviser. To learn more about how we can help you meet your goals, please contact our office at (717) 399-1700 or via our website, rklwealth.com. Additional information is available upon request.

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