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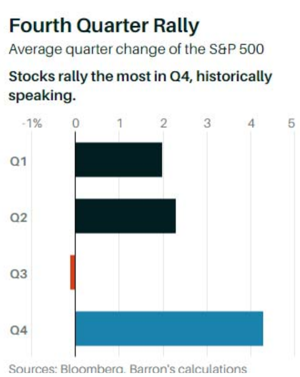
Tarheel Advisors Newsletter

A Practical Market Q&A

As we close out the third quarter, there is perhaps more uncertainty now than we've seen in quite some time. While both stock and bond market returns have been stellar thus far, I can't recall a time when it felt so negative to have done so well. I think a lot of that sentiment comes from the barrage of headlines, tweets, and recency bias that can be difficult to sort through in a practical way. In light of that perspective, let's take a look at the most common questions with an analytical lens.

Q: Is Market seasonality really a thing?

A: Yes and No. There is an old adage on Wall Street: "Sell in May and go away," which refers to the Market's tendency to tread water in the Summer months. Basically, as an investor you'd be better off selling on May 1st and then re-buying everything on October 1st.



Historically speaking, the 3rd quarter is the worst and the 4th quarter is far and away the best for average performance. The majority of the gains thus far in 2019 happened in the first four months of the year, and would lead credence to the old axiom. However, case in point 2018, where the market fell 20% + in the 4th quarter, shows that the opposite may happen as well. From a long-term investing perspective, I can say that idea is certainly flawed as you will never be able to guess the ultimate peak or trough of the Market's day-to-day movements. But statistically, there is some merit to the idea and tweaking your overall allocation slightly might help you lock in some gains and rebalance your portfolio without totally overhauling it.

Q: How does a President's impeachment affect the Market?

A: First off, impeachment is just a fancy word for leveling charges against a government official — akin to an indictment in a criminal law case. Excluding the 1868 impeachment of Andrew Johnson, there are only two modern examples to compare the repercussions for the stock market. Those cases of Richard Nixon in 1974 and Bill Clinton in 1998 had drastically different outcomes. In the case of Nixon, who later resigned before being convicted, the market dropped significantly from the time of the inquiry through the formal impeachment hearings until his ultimate resignation. In all the Market fell 26% during this time, but the argument can be made that the economic backdrop of a recession with an oil crisis and ensuing bear market were as much to blame as the uncertainty over the Commander-in-Chief. In the case of Bill Clinton, The opposite market reaction occurred. The S&P 500 gained close to 27% through the impeachment process which ultimately led to his acquittal. Again there are other extenuating circumstances such as the Federal Reserve cutting interest rates and tech stocks starting to get hot as the bubble was beginning to form. In the current climate, I think we can again extrapolate the likely market move will have more to do with the economic backdrop than the political theater that is likely to ensue. While the proceedings will add

2019 Market Update

S&P 500	**20.5%**
DOW	**15.4%**
RUSS 2000	**12.9%**
MSCI World	**11.5%**
BONDS	**8.7%**
GOLD	**14.5%**

Mortgage Rates

15-Year	**3.37%**
30-Year	**3.50%**
5/1 ARM	**2.63%**

Did You Know?

* Congratulations to Walter, Laura, and the rest of the Hinson family on the birth of their daughter, Abigail Caroline on September 27th!

* Starting on October 7th, Charles Schwab has announced that they are eliminating all commissions on US and Canadian stocks, ETFs, and options.

* If you filed an extension on your personal income tax return in April, it is due on October 15th. This is also the last date to make SEP IRA contributions for the 2018 tax year.

Market Q&A (Cont.)

another layer of uncertainty, we are about to enter an election year where the eventual outcome is already a variable. Throw in the split party control of Congress and the likely ouster of President Trump seems like a long shot. In the meantime, Federal Reserve interest rate policy is still the largest driver of market direction. Any dips in the market caused by the trade war, impeachment, etc., may actually have the contrary effect of temporarily weakening the economy or stock markets and forcing the Fed to lower rates further, which will in turn prolong the historic run of risk assets. **-Walter Hinson, CFP®**

Investing In Real Estate

Directly owning real estate is one of the oldest and most reliable forms of investing on the planet. Whether you were a feudal lord 1000 years ago or Donald Trump today, buying and holding real estate has always been a strong path to wealth generation. So, it is no wonder that we regularly get questions in regards to how to start investing in real estate.

There are two ways to invest in real estate. The most familiar route for most is the direct form of real estate ownership. This is where an investor directly owns and manages their properties. The second form is passive investment where the investor owns a percentage of a investment property or company, but the management of the investment is left to others akin to investing in the stock market.

The bulk of the interest we see in real estate from our clients is in direct ownership. For those wanting to dip their toes into real estate, first you must decide on the type of property you're interested in. Typically this falls into choosing between residential, commercial, or undeveloped property. There are nuances between all three, so your individual skill set and financial position should be considered before choosing.

The starting place for many real estate investors is purchasing a residential rental property. Most investors have managed their own personal residence, so buying another to rent is fairly straightforward. A huge advantage to investing in residential property is the reliable cash flow. Most homes can be consistently rented with a low vacancy rate creating a solid cash flow generation.

Residential properties are not without their drawbacks, however. Of the real estate investing options it debatably has the highest time commitment related to the investment. If one is looking to build a portfolio of residential properties this can create significant scaling issues. If you accumulate 5 or more properties you might quickly find yourself overwhelmed with managing tenants and property upkeep. If your schedule doesn't have the flexibility to manage this, then residential property investment may not be for you.

Commercial property investment may be a more attractive target for those who are cash rich and time poor. For those looking to invest seven digits or more in real estate, it is much easier to scale those dollars when dealing in the commercial realm. Commercial properties are known for longer droughts in vacancy rates versus residential properties. I've seen these types of properties go vacant for years, so if your finances can't support this type of risk then commercial investment won't be for you. Additionally, commercial leases are infinitely more complicated to handle than residential lease paperwork. Between this and the regulatory hurdles I highly advise a good attorney to be on your speed dial if investing in commercial.

Lastly, and most speculatively, there is undeveloped land. Because of the speculative nature of land purchases it can be quite difficult to find a bank to assist in any potential financing needs. Also, most likely you will experience terrible cash flow from your land. However, if you have a long time horizon one can do quite well with this investment. A tract of land may not grow in value for decades, but when the right circumstances arrive it might sky rocket in value.

I'll give one last word of advice for those starting in real estate investment, and that will be in regards to leverage. Having a strong cash position is crucial in purchasing and managing real estate. Using high amounts of leverage and poor cash flow can turn your investment into a Chapter 13 Bankruptcy.

-Ryan Glover, CFP®

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