Kadi F. Hinz, MSFA
Financial Planner*
3550 Liberty Rd S Ste 230
Salem, OR 97302

503-566-7266 ext.1111
503-566-7446 Fax
kadi@wfgadvisors.com

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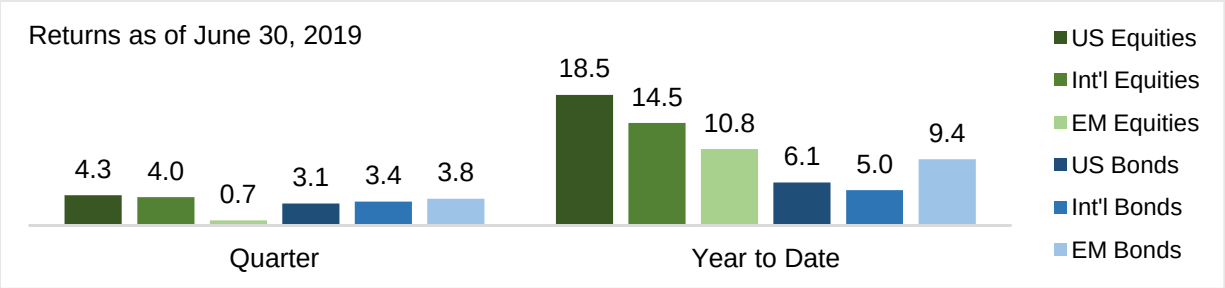
Dear Clients,

Stocks in the US overcame a sharp pullback in May and recorded solid gains in the second quarter. The S&P 500 Index reached record highs and ended with its best start to a year in over two decades. All sectors in the S&P 500, except for the energy sector, recorded gains. The three month/10 year portion of the Treasury yield curve was inverted during much of the 2nd quarter – meaning that the shorter maturity security offered a higher yield than the longer one. An inversion of this part of the curve has often foreshadowed recessions in the past, although there have also been false positives and the start of a downturn can lag an inversion by a significant amount of time. The two year/10 year portion of the curve, which is also closely watched as an indicator of the health of the economy, did not invert.[1]



Tariff Impacts Second Quarter Story

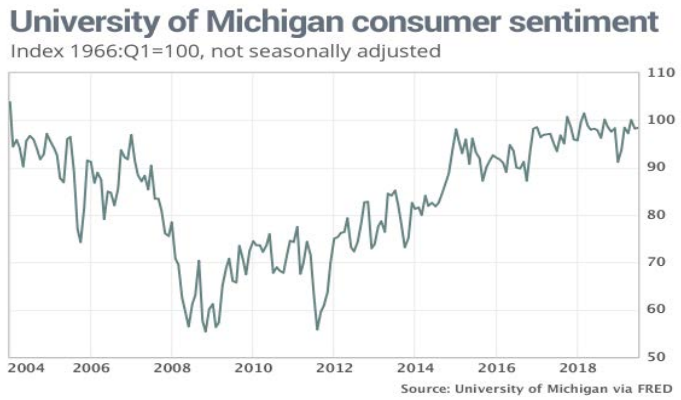
In early April, President Trump announced that the US and China were nearing an "epic" trade deal. High level talks continued over the next few weeks. Near the end of April it was announced that Chinese President Xi Jinping would soon visit Washington DC, presumably to sign an agreement. Hopes for a deal were dashed in early May, sending stocks sharply lower. With negotiations at a standstill on Friday May 10th, the White House increased the tariff from 10% to 25% on $200 billion in Chinese goods. The S&P 500 experienced its second worst day of the year the following Monday, after China's announcement over the weekend that it was imposing retaliatory tariffs on an additional $60 billion in US imports. On May 30th was an unexpected turn in trade policy when the president announced a 5% tariff on Mexican goods unless the Mexican government stopped the flow of illegal migrants across the US-Mexico border. The tariff would gradually increase to 25% if the crisis persists was the follow on statement by the president. Stock futures fell sharply in response. Trade tensions eased again in June when President Trump announced that the Mexican tariffs would be suspended following new security measures pledged by the Mexican government. Also, on June 18th the markets responded favorably when the president promised "an extended meeting" with Chinese President Xi Jinping at the G-20 summit at the end of the month. Markets further welcomed Treasury Secretary Steven Mnuchin's remark that negotiators were "90% of the way there" in reaching a deal. Then at the very end of June the president announced that the two sides had resumed negotiations and arranged a truce that would prevent

1. Source: T. Rowe Price

the imposition of new tariffs.

Trade Progress Continues for Second Half of the Year

Positive economic growth, low inflation, lowest unemployment rate in 50 years and an accommodative Federal Reserve are all likely to support financial markets in the second half of 2019, although much depends on a resolution of the US – China trade dispute. The University of Michigan's consumer sentiment rose slightly in July and clung near a fifteen year peak.[2]



PERS Corner

The 2019 cost-of-living adjustment (COLA) for PERS benefit recipients receiving a monthly benefit will be effective July 1, 2019 and will be part of your August 1, 2019 benefit payment. The COLA amount – up to 2% each year – is based on the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI). PERS is using the CPI for the West Region, which for 2018 was 3.35%. Benefit recipients who retired before October 1, 2013, will receive a 2% COLA. If you earned some service credit before October 1, 2013, and some after that date, you will have a blended COLA for 2019 including:

- 2% on service credit earned up to October 1, 2013; plus
- 1.25% on service credit earned after October 1, 2013. If your annual benefit is more than $60,000, the portion above $60,000 receives a 0.15% COLA for service earned after October 1, 2013.

If you are an OPSRP member (hired after August 28, 2003) whose effective retirement date was on or after August 1, 2018, your COLA will be pro-rated based on the number of months you received a benefit before July 1, 2019.

Thank you for the trust you have placed in us and we will continue to work hard to navigate the challenges and opportunities on your behalf. We look forward to discussing your evolving financial goals, as well as reviewing the mixture of asset allocation approaches within your portfolio, as we seek to keep your investment plan aligned with your needs.

Sincerely,

Kadi

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2. Source: University of Michigan

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