DIVIDEND FOCUS STRATEGY

NEWSQUARE CAPITAL

QUARTERLY COMMENTARY

2nd Quarter • 2018

Commentary

Despite continued day-to-day volatility, US stocks posted positive returns in the second quarter, buoyed by a stronger US dollar and a rosy outlook for US economic growth. The S&P 500 and other broad US indices advanced for the three-month period, extending the current multi-year bull market. Concerns revolving around a global trade war, rising interest rates, the sustainability of the European Union, and the potential for US Federal Reserve (Fed) policy mistakes led to some short-term ups and downs, but investors seemed to retain their conviction in the aging bull market.

The yield curve—the difference between interest rates on short-term and long-term government bonds—continued to flatten. It remains positive, and while the US economy has never escaped a recession when the yield curve turns negative, this year's flattening is different, in our minds. Long-term yields have been restrained by trillions of dollars of central bank purchases since the Great Recession in 2008, while Fed policy has repeatedly lifted short-term interest rates, flattening the yield curve. Late in the quarter, the Fed upgraded its forecast for 2018 rates increases from three to four.

Dividend Focus Description

The NewSquare Dividend Focus Strategy is an actively-managed portfolio for investors who seek consistent and relatively high income. The portfolio is built around a long-term allocation of dividend-paying common stocks of US-based Fortune 1000 companies. The portfolio uses fundamental valuation and technical analysis to tactically shift between stock sectors, using other equity- and bond-focused exchange-traded funds, or ETFs, as it seeks to capture benefits from fundamental valuation, price momentum, and yield changes.

Within the portfolio, our overweight exposure to both consumer discretionary—one of the strongest-performing sectors in the US large-cap universe—and real estate drove relative returns. Our underweighting in industrials, which generally declined over global trade concerns, also bolstered relative performance. In contrast, an overweight to the financials sector weighed on relative results, as the sector felt the impact of the flattening yield curve. Our underweights to energy and information technology also detracted from relative returns.

Outlook

We have now turned our focus to the bull market's longevity and sustainability. We believe we are entering a time of growing downside risks, which is typical in the latter stages of the business cycle. Potential risk factors include escalating trade conflicts, higher inflation leading the Fed to accelerate its pace of interest rate increases, higher oil prices, and federal government budget battles.
At this time, we do not believe a US economic recession to be imminent.

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[1] The benchmark for comparison consists of a blend of 60% NASDAQ U.S. Broad Dividend Achievers Index, 10% FTSE NAREIT All Equity Total Return Index, 10% S&P Preferred Stock Total Return Index, 10% Bloomberg Barclays U.S. Corporate High Yield Bond Index, and 10% Bloomberg Barclays U.S. Aggregate Bond Index.

In times like these, we look to the fundamentals of the economy, and we believe they remain strong. Despite what we view as a high degree of uncertainty and the potential for an increase in volatility, our long-term outlook remains largely unchanged at this time. We believe that stocks will likely continue to outperform bonds and cash over the long haul. Remember, the daily and monthly ups and downs of the market are little more than noise. We believe keeping a focus on the long-term nature of investing is the best way to create wealth.