DELTA
FINANCIAL ADVISORS
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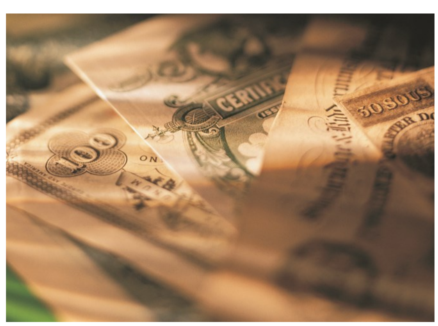
Economic Comments

Even the United States' central bank is banging the drum regarding the country's current economic strength. Fed Chair Powell recently spoke about the economy experiencing "a particularly bright moment." Putting its money where its mouth is, the Federal Reserve's Open Market Committee (the FOMC) raised the benchmark overnight interest rate in mid-September for the third time this year, to a range between 2.0% and 2.25%. The FOMC described economic conditions as "strong" and predicted that economic growth could exceed 3% for all of 2018. Adding to the bank's optimism was continued low unemployment, inflation hovering at the 2% pace that the Fed regards as optimal and an increasing rate of business investment.

At a late September speech, Federal Reserve Chairman Powell said that the American economy is enjoying an unusually sustainable period of low unemployment and low inflation. Moreover, he indicated his and the Fed's expectation that the current environment will continue and is in fact "not too good to be true." He also emphasized that the September rate increase was not intended to get in the way of continued economic growth but rather was a step towards a neutral interest rate, i.e. one that is neither stimulating nor restraining the economy.

To close out 2018, both Wall Street analysts and central bankers anticipate another quarter-point increase before year's end. So far, there is little sign that the Fed's recent rate increases are crimping economic growth. Consumer borrowing costs are rising, but interest rates remain quite low by historical standards. The average rate on a 30-year mortgage loan reached 4.55% in August, up from 3.96% in December 2015. While the Fed sees little slack in the economy, Chair Powell does not see wage growth as an indication that the economy is beginning to overheat since wages are rising in-line with inflation and labor productivity.

Now hovering around the 2% rate, inflation is at the level that the central bank considers optimal while unemployment has remained close to 4% for the last year. Although low unemployment has usually foreshadowed accelerating inflation, Mr. Powell has indicated his belief that the Fed's success in holding down inflation in recent decades has structurally changed the public's inflation expectations to automatically plan on low inflation. We can only cautiously hope that Mr. Powell's contention that inflation expectations have structurally shifted downward proves to be true!



As the economy put up another show of strength, job growth surged in September to its highest level in seven months. In September, private companies added 230,000 jobs for the month, well ahead of the 168,000 jobs added in August. In fact, the new jobs were also appreciably higher than consensus estimates of 185,000 jobs. Gains were spread across industries, with the service sector leading with 184,000 new positions.

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The report came at a strong time for the economy, which is coming off of 4.2% GDP growth in the second quarter. Some analysts are even predicting that the 4% level could also be achieved for the third quarter.

September's unemployment rate hit its lowest level since 1969 with a reading of 3.7%. Economists remain largely surprised that wages are not growing faster now that competition for workers is so fierce. Annual pay for the average worker has increased only 2.8% in the past year. While unemployment remains at historically low levels, wages grew only 2.8% in September, a modest disappointment after August's 2.9% growth - the highest in nine years. Looking more closely, the unemployment situation is not quite as rosy as initially portrayed. The number of workers employed part-time who want a full-time job actually rose in September. Currently, 4.6 million Americans are involuntary part-time workers as compared to 3.9 million in 2006 and less than 3.2 million in 2000.

The Trump Administration, meanwhile, may have scored a win with its contentious renegotiation of the North American Free Trade Agreement. The new three party deal, the United States-Mexico-Canada Agreement, looks to improve trade terms for dairy products and automobiles; trade in both being made more favorable for the United States. The unspoken question is whether the legislatures of all three countries can pass the new legislation.

On other fronts, however, trade tensions have shown few signs of easing between the U.S. and some of its biggest economic partners. The Administration's latest imposition of 10% tariffs on $200 billion worth of Chinese goods, rolled out at the end of September, had China hitting back immediately with levies on $60 billion of U.S. products. For the near-term, a cooling of tensions between the two countries seems unlikely.

Despite a rising chorus of concerns from businesses all over the country about the economic impact of the new Trump tariffs, the Federal Reserve has yet to see a negative effect from the tariffs being reflected in the economic data. Whether these new economic headwinds can continue to be overcome remains to be seen. For the time being at least, we anticipate the U.S. economy to continue to push forward in the face of these new and escalating challenges.

Analyst Corner

Originally a small, regional player, Southwest Airlines (*NYSE: LUV*) has grown over several decades to become one of the biggest airlines in the country. Unlike most carriers, Southwest uses a point-to-point model rather than the hub-and-spoke model used by its rivals. Focused on a single aircraft, the Boeing 737, the company grew rapidly with its one-class cabins and flights into secondary airports. These structural differences have allowed the company to historically deliver consistent operating profits, unlike its peers. Although its relative cost advantage has shrunk in recent years, Southwest continues to enjoy a modest cost advantage and an extremely strong brand due to its simple fare price, free checked bags, and solid customer service. With the strongest balance sheet in the industry, the company has the ability to pay a consistent and growing dividend. While the airline industry is subject to substantial volatility due to changing economic conditions, we believe that Southwest is the cream of the airline crop. For the right investor a little bit of LUV could be a strong portfolio addition.

Market Comments

Even amid political turmoil at home and abroad, U.S. markets were strong in the third quarter as stocks clocked in their best quarter in 5 years. The S&P 500 rose about 7%, its largest quarterly advance since the fourth quarter of 2013 with the Dow Jones Industrial Average up more than 9% and the NASDAQ up almost 7%. Driving the market's charge was the healthcare sector which rose more than 14.5% as investors re-embraced the sector's steady growth. In the face of relatively tepid global growth, and the associated demand for raw materials that is driven by such growth, the materials sector appreciably lagged the market – clocking in a gain of only 0.36% for the quarter.

In recent years, Wall Street has been the bell of the global ball. Through August 31, the S&P 500 has outperformed international stocks over most periods ranging from one to forty-five years, according to AJO, an institutional investment manager. Looking back, U.S. stocks seem to have dominated over the long run but this is only because they have done so extraordinarily well in in the past several years. Supported by a strong currency and trillions of dollars of fiscal and monetary stimulus, U.S. stocks rose so swiftly out of the financial crisis that they left the rest of the world's financial markets behind. Wall Street's spectacular recovery from the Financial Crisis has obscured the historical record. In fact, the U.S. was among the worst-performing major stock markets worldwide in both the 1970s and in the 2000s. Even in the 1980s, Wall Street earned lower returns than the average international market. When will the tides change? It is hard to say. Often though, markets tend to lose their dominance right when they seem the most irresistible.

Looking to interest rates, bond prices have continued to drift down as yields have climbed. So far, though, analysts have largely regarded the uptick in interest rates and inflation as a testament to the strength of the U.S. economy, not as an imminent threat to the current economic expansion. However, one recent shift in the market has been a sharp decrease in the yield differential between short and long-term Treasuries. While the rate on 10-year Treasuries is still above that of 2-year Treasuries, the differential has shrunk to as little as 0.38 percentage points, the smallest differential in over 12 years. If the yield curve were to invert, i.e. short term rates become higher than long term rates, this signal has often been a precursor to recession. However, using the New York Federal Reserve Bank's forecast model, which is based on the yield curve, the bank is currently projecting only a 15% likelihood of recession within the next 12 months.

As we plan ahead, U.S. stocks may be more vulnerable than usual to a reversal, given their relative cost. Compared to the rest of the globe, U.S. shares are trading at record valuations – twice as much, as measured by price to net worth, as international shares. Moreover, the world's markets are less dominated, on average, by technology stocks than the U.S. and are more focused on cheaper industrial and financial stocks. The biggest surprise is that individual investors have not abandoned global diversification during this recent period of sharp underperformance. Instead, according to the Vanguard Group, more than $34 billion left U.S. mutual and exchanged traded funds over the past ten years with more than $1 trillion added to international stock holdings. We, too, support this move and continue to see international stock holdings to be important diversifiers of portfolio risk.

In the coming months, investors will face a number of hurdles to overcome including a hotly contested midterm election cycle and another expected increase in interest rates from the Federal Reserve. However, a strengthening U.S. economy should provide continued support to the market's upward trend. So far this year, the last several quarters' robust growth has been a critical factor in helping investors look past the continuing trade spat between the U.S. and its major trade partners. According to FactSet, profit gains are expected to be 19% in the quarter, albeit a bit lower than the 25% recorded in the year's first half.

With the U.S. central bank continuing to step back from its multi-year hand holding of the financial markets and a worsening trade war with China, amongst others, Wall Street clearly has challenges lying in its path forward. In times such as these, a well-diversified and risk appropriate investment strategy is more important than ever. While making gains from your investments is key, taking on the appropriate levels of portfolio risk is equally as important. If you have had a significant event in your life recently, contact us to see if this event should justify making structural changes to your investment policy and/or portfolio.

Performance as of 9/30/18

	Close	Month	YTD	1 Year
DJIA	26,458.31	1.97%	8.83%	20.75%
S & P 500	2913.98	0.57%	10.56%	17.91%
NASDAQ Comp.	8046.35	-0.78%	16.56%	23.87%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	3.06%	2.40%	2.33%

Planning Thoughts

There is an old saying that only two things are certain in life: death and taxes. While many spend a great deal of time working with their CPA to minimize their taxes, too few people spend time with an attorney preparing for death by creating a good estate plan. The heart of an estate plan is the will, where you indicate how you want your assets divided upon death. A will is important for both the super wealthy as well as the average person. Otherwise, in the absence of a will, the decedent's assets are divided up based on their state's law - a solution that is highly unlikely to match your own personal desires. As part of the will creation, the ownership/titling of your various assets should be checked to make sure that the legal titling and or beneficiary designations are consistent with the objective of your overall estate plan. Too often, individuals get divorced or re-married and neglect to update the beneficiaries of their company 401K accounts or personal IRAs.

In addition to a will, a good estate plan should also include the creation of a durable power of attorney where an individual is given the legal power to carry out your financial affairs if/when you are unable to do so. Finally, the creation of an advance medical directive and healthcare power of attorney will address how much (or little) healthcare you want to receive at the end of your life.

While the above actions may sound daunting, the first step is finding a good estate attorney. With their help, your estate planning should go smoothly. If you would like, feel free to call us and we can help you get the ball rolling on this vital task.

As a reminder, please update your address books. After ten years of working in the historic Whitney Bank Building, we are pleased to announce that we moved to a larger space just two blocks away at the end of August. Our phone number and fax numbers remain the same. Our new address is:

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