FLOWER CITY CAPITAL

**June 2018 Newsletter**

Dear Members of Flower City Capital,

This is a bit early, but happy Independence day! We hope you are having a great June so far and are looking forward to the summer.

As always, we begin with an executive summary for those of you who do not wish to read further:

- May has generally been a good month for stock markets as economic indicators remain positive for the still-strong United States, not showing signs of overheating despite being very far along in the current economic and market cycle
    - The US unemployment rate is the lowest it's been in years, at 3.8%, in fact there are now more job openings that workers to fill them
    - The Atlanta Fed is forecasting second quarter GDP growth at close to 5%, concurrently we see continued wage and price inflation
- There are signs however that synchronized global growth is beginning to unwind as international economic indicators falter along with trade concerns and other political tensions
- The latest spike in volatility within the Eurozone stemmed from an Italian populist coalition working to form a new government, introducing a renewed potential risk to the strength of the Eurozone's economic union
    - The Eurozone announced last week to wind down it's bond buying program by the end of this year, however it did not address any rate hikes
- Continued volatility is expected with uncertain support for risky assets as we enter the summer months, due to mid-term elections and markets potentially already pricing in positive earnings and economic surprises
- Yields have continued to rise across the yield curve, with the 10-year treasury back at approximately 3% and the 2-year treasury close to 2.5%
    - Investors now can capture more yield with less risk
    - Last week, the Fed raised its policy to a range between 1.75% and 2%
- With $1.41 trillion of outstanding balances, student loan debt continues to grow as a pervasive financial planning issue for not only borrowers, but also their families and communities

On a technology note, we have been working to build and implement a new portal solution offering a comprehensive and streamlined view of your investments and portfolios. We believe the portal will be a great resource as a singular location of all your investment related information and are excited to be rolling it out in the coming months, please stay tuned!

## Big Picture View and Our Portfolios

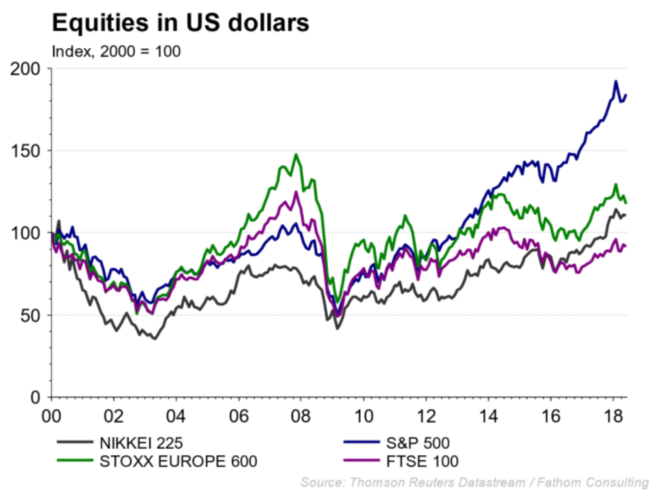
- Along with the signals of further fragility in the Eurozone, Emerging Markets are also struggling to keep pace with the rising strength of the US Dollar, to combat inflation without dampening growth and to maintain favorable trade relationships
- Considering the most recent rate hike, the Federal Reserve is likely to gradually continue raising rates and we expect to continue seeing the yield curve rise on the short end
- As such our portfolio allocations remain slightly overweight equities, with a balanced fixed income allocation that benefits as rates rise, assumes a prudent amount of credit risk and is protected from outsized interest rate risk

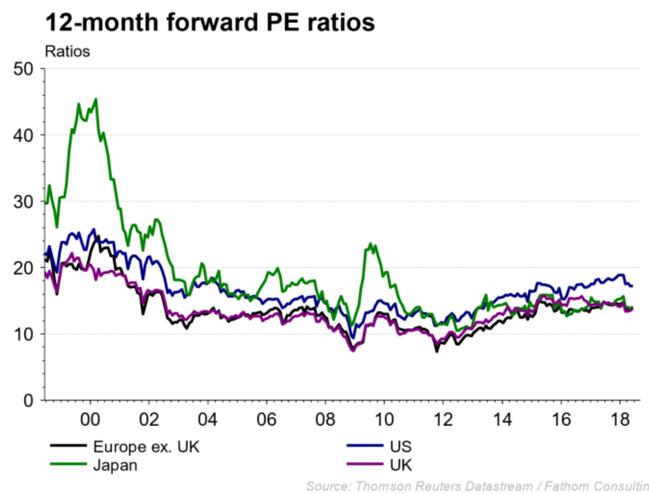
## Market Overview

Divergence between the US and both International Developed and Emerging Markets is becoming increasingly clear in terms of economic indicators, equity markets and company fundamentals.

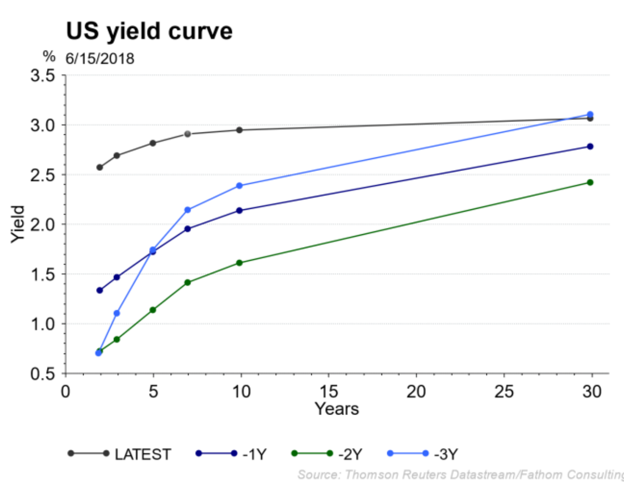
| Category | Index | Last Price | 1 Month % Change | 3 Month % Change | 1 Year % Change | 5 Year % Change | 10 Year % Change |
|---|---|---|---|---|---|---|---|
| Domestic Equity | S&P 500 | $ 2,777.72 | 5.81 | 7.81 | 14.13 | 71.05 | 104.59 |
| International Developed | MSCI EAFE | $ 2,015.24 | -0.57 | -0.37 | 5.74 | 19.29 | -0.06 |
| Emerging Markets | MSCI Intl EM | $ 1,125.71 | -1.07 | -3.21 | 11.05 | 18.04 | 0.51 |

*Data as of 6.15.2018*




The yield curve flattened further with this week's rate hike announcement. The Fed has signaled that it is likely to continue raising rates potentially overshooting the balance between applying the brakes and simply returning to a normalized rate environment.

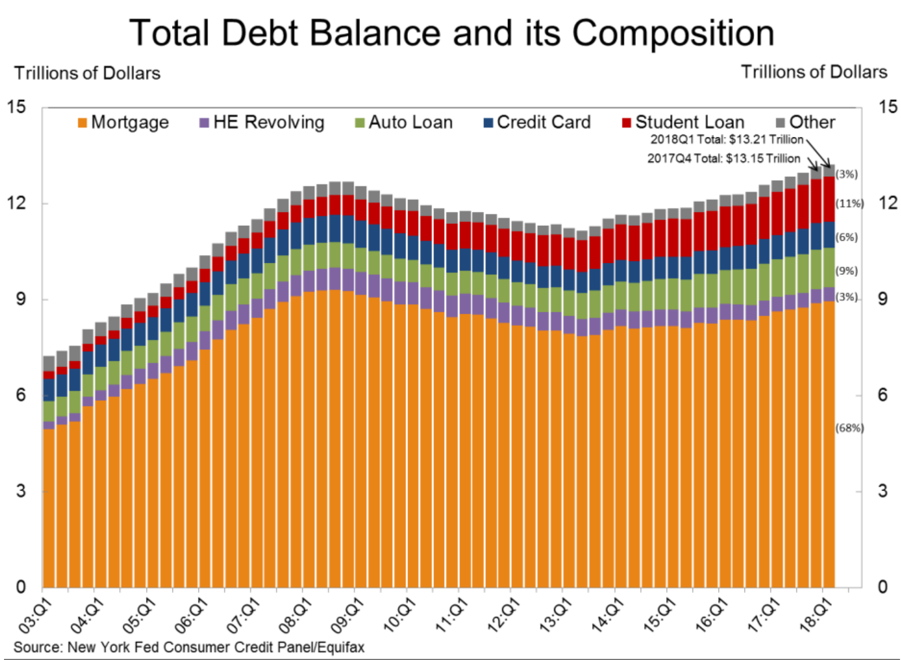



This is a great time to revisit an earlier discussion regarding high yield savings accounts. Online savings accounts offer potentially close to 2% on deposits as rates continue to rise. Please let us know if this is something you're interested in setting up.

## Financial Planning Observations – Student Loans

Having wrapped up the 2018 college graduation season and about to enter high school graduation season, it's a particularly relevant time to think about how best to strategize tackling student loans. While many of us may not actually hold any student loan debt, it is likely that someone we know will soon be applying for new loans or is currently paying them off. After graduating from college two years ago, this subject is top of mind for our Analyst Vince Crane.

According to the Federal Reserve Bank of New York as of March 31, 2018, outstanding student loan debt stood at $1.41 trillion, $29 billion greater than the quarter before. This made up about 11% of the $13.21 trillion total American household debt balance.[1] The number of students graduating with student loan debt and average annual borrowing has rapidly increased in recent years, especially for graduate students. In fact, the number of students graduating with over $100,000 in debt and even $1,000,000 has ballooned due to increasing interest rates and increasing costs of education.[2] That's a significant amount of debt for a recent college graduate just beginning their career. The interest payments alone would go a long way towards saving or investing goals, and ultimately borrowers saddled with too much debt often delay starting businesses, purchasing a home, getting married or otherwise following their passions.




*Step 1: Get Organized*

- The first step for any repayment plan is getting organized and fully understanding the details of each loan, the below list of attributes are key inputs for any successful repayment plan
- Type of loan, who the lender is, applicable interest rates, balances and payment terms

[1] *Quarterly Report on Household Debt and Credit 2018:Q1* Federal Reserve bank of New York Center for Microeconomic data
[2] https://www.wsj.com/articles/mike-meru-has-1-million-in-student-loans-how-did-that-happen-1527252975

*Step 2: Develop a Plan*

- After getting organized, one of the most important questions is how much to pay and how often
- Though the answer will depend on each individual's financial position and preferences, the following waterfall is an effective guide for prioritizing savings and debt paydowns

1. Maximize 401K contribution up to employer match (100% Return)
2. Paydown credit card debt (20%+ guaranteed return)
3. Paydown other high interest debt (8%+ returns)
4. Build an emergency fund covering 3-6 months expenses (risk management)
5. Balance debt service and investing for the future

*Step 3: Implement the Plan*

- Similar to investing, a well-constructed plan requires discipline
- Automatic payments are strongly encouraged, and are a great way to ensure payments are made on time and may potentially merit lower interest rates depending on the lender
- It's important to note that repayments don't necessarily have to begin after graduation, it's a good idea to consider making interest payments while still in school, which may significantly reduce the amount of interest that accrues over time and helps to minimize the burden of future debt service

*Other Key Insights*

Student loan refinancing and consolidation have become valuable options for borrowers as a means for managing multiple outstanding loans.

- Refinancing into a singular loan may be an appealing option, potentially minimizing debt service in the form of lower payments or extended payoff periods
- With the rise of alternative lending alternatives such as SoFi, Common Bond and Earnest, these strategies have become easier to implement
- The government offers multiple flexible repayment options and even loan forgiveness programs which are not available for private loans
- It could be the case that giving up the ability to participate in government loan programs outweighs the benefits of a lower interest rate

Employers are also recognizing the importance of student loans and are now offering creative benefit solutions to employees. Some examples include providing funds to enroll in eligible degree programs or even providing loan-repayment assistance.

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There are few doubts in the value of a college education for increasing future earnings and overall success, but unfortunately a college education is often not accessible without student loans. It all comes back to a bit of education up front for potential borrowers in fully understanding their options and future obligations. And once payments do start after graduation, it's important to be organized, take advantage of any available resources and to thoughtfully work through a repayment plan that works for you.

At Flower City Capital, we are committed to supporting our clients wherever we can, not only through financial planning and wealth management but also through education. We plan to continue spotlighting relevant financial planning topics, please let us know if you have any suggestions and feel free to pass this piece along if you know someone who may benefit.

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|---|---|---|
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**As always please do not hesitate to contact us with any questions, investment or otherwise.**