INVESTMENT UPDATE

ROMANO
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WEALTH MANAGEMENT

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MARKET PAUSES TO CATCH ITS BREATH

A NOTE FROM JOE ROMANO

So far, 2018 has been off to an uneventful start, particularly compared to the "nothing but up markets" seen from the so called "Trump Bump" after the election in late 2016. Through June 11, the NYSE Composite was flat at 0.38%, the Dow was up 2.44%, and the S&P 500 up 4.05%. At this same point in 2017, those same indices were up a blistering 5.45%, 6.86%, and 7.90% respectively. What a difference a year makes!

Despite one of the strongest earnings seasons on record, seven of the eleven industry sectors are in negative territory year to date. The Consumer Discretionary and Information Technology sectors are double digit winners, leading the Nasdaq Composite to an 11% gain on the year. This has fueled the perennial "Growth vs. Value" investing strategy debate, with growth stocks firmly outpacing value since the beginning of 2017. In fact, over the longer term since 1975 growth stocks have had a compound annual growth rate of 10.6% making them a better long-term holding than the value group's 9.2% return.

So why then is RWM so wedded to value stocks? For one very simple reason: the value group had 30% less volatility than its growth counterpart. As our sage founder Dick Romano often states, "It is our firm's mission to manage risk—not return—the upside will take care of itself."

All trends revert and so too will an eventual flow of capital from growth stocks toward the value stocks we favor. I wrote about the "Amazon Effect" in the last newsletter, but it is interesting to note the comeback of retail stocks and the strong Consumer Discretionary gains so far this year. Some of the worst performing sectors are Telecom and Utilities (-9%), and Real Estate (-3.5%). These are also some of our most favored in terms of cash flow and recurring dividends.

One of the reasons for the decline in these sectors and one of the biggest events in the past 18 months has been the rise in interest rates as we come out of a nearly 10 year long zero percent rate environment. As we would expect, all 9 of the fixed income indices we follow are in negative territory for the year, down approximately 1% on average year to date. The Federal Reserve has increased rates six times and the 1 month LIBOR now sits over 2%. The 5 year, 10 year, and 30 year Treasuries yield 2.81%, 2.96%, and 3.10% respectively.

With short term rates rising more rapidly than longer term rates, this has "flattened" the yield curve as noted by the 10 year yield being within 15 basis points of both its 5 year and 30 year counterparts. Said differently, you can currently get 90% of the 30 yield note in the 5 year bond, or with 20% of the duration. Why go long and take the interest rate risk if not rewarded?

Capitalizing on this, Fixed Income Principal Doug Geisser has been actively seeking bargains in the 4 to 7 year range for our clientele. While no one is going to get rich with shorter term corporate notes at 3.25% to 3.5%, it is a welcome increase for our income oriented investors. To call these rates compelling may be a stretch, but they are certainly now at least a palpable alternative to the risk of stocks.

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Given this changing balance and the current 10 year bull market which Portfolio Manager Brett Larson puts into perspective inside, we think 2018 is a year to take stock of your portfolio and its current asset allocation. We encourage you to give your portfolio manager a call to set up a meeting or discuss your account—if we don't get up with you first.

On a final note, we just completed a full interior redesign of our space, details inside. Our new digs wouldn't be possible without the continued trust and confidence you place in every one of us here, and we are indeed grateful. Thank you for partnering with us.

Joe Romano
PRESIDENT

ROMANO WEALTH MANAGEMENT GETS A NEW LOOK

After being on the 13th floor of the Rotary International Building in downtown Evanston for the last 20 years, we decided it was time for the office to get a fresh, new look! Renovations started in January which meant a lot of moving and shaking while we shared the space with the construction crew, but we are happy to announce that the renovation has recently wrapped up and Romano Wealth 2.0 is a go! We've updated the paint and carpets throughout the entire office, brought new life into the lobby and conference room, and completely remodeled the kitchen for our hard-working office family. Call your portfolio manager today to schedule a meeting or just stop by to say hello. We'd love to show you around. For our out-of-town clients—our new conference room has full video conferencing capabilities, so we can still meet with you face to face!

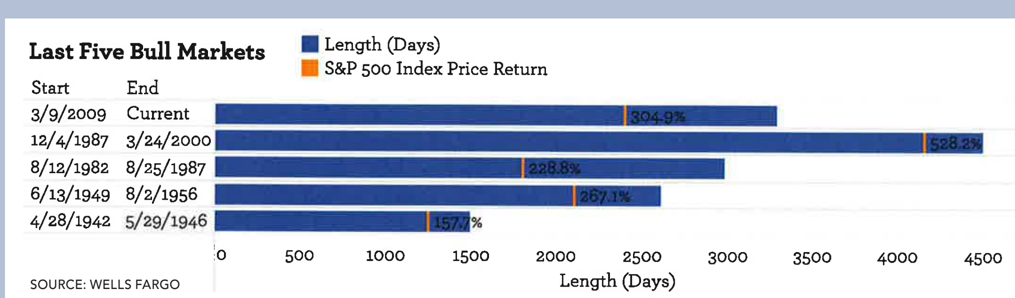
BULL MARKET

On March 9, 2018, the current bull market celebrated its nine year anniversary. We have come a long way since the financial crisis and the question on everyone's mind seems to be the same: When will this bull market come to an end?

Depending on who you ask or what channel you have on, you are probably going to get very different answers. Some experts say we are in the late innings of a very successful bull market. Others may use the term "secular" bull market and say that we still have more room to run. So what is the difference between a bull market and a secular bull market?

A bull market is a period of generally rising prices. Broadly speaking, a bull market happens when stock prices rise by 20 percent and before a 20 percent decline. Bull markets are characterized by optimism, investor confidence and expectations that strong results should continue, usually for months or years. The start of a bull market is marked by widespread pessimism. This point is when the "crowd" is the most bearish. The feeling of despondency changes to hope, optimism, and eventually euphoria, as the bull market runs its course.

An analysis of Morningstar stock market data from 1926 to 2014 found that a typical bull market "lasted 8.5 years with an average cumulative total return of 458%," while annualized gains for bull markets range from 14.9% to 34.1%. Below is a chart of the last five bull markets. You can see that this is the second longest stretch we have had without a 20% correction.



A secular market trend is a long-term trend that lasts 5 to 25 years and consists of a series of primary trends. A secular bull market consists of larger bull markets and smaller bear markets. In a secular bull market the prevailing trend is "bullish" or upward-moving. Secular Bull markets tend to last 14+ years. The most recent and famous secular bull market was from 1982 to 2000. There were bear markets during this time, including the famous Black Monday crash on October 1987. However, this did not derail the secular bull market as it continued for another 13 years. The average annual return rate of the Dow Jones Industrial average from 1982 to 2000 was 16.8%. Between March 9, 2009 and today, the average annualized return for the S&P 500 is 19.3%, as shown below.

US Equity Market Indices Since March 9, 2009

Nasdaq Composite	Russell 2000	S&P 500	Dow Jones Industrial	Wilshire 5000
Total Return: 553.6%	Total Return: 417.6%	Total Return: 389.2%	Total Return: 380.2%	Total Return: 314.2%
Annualized Return: 23.2%	Annualized Return : 20.0%	Annualized Return: 19.3%	Annualized Return: 19.0%	Annualized Return: 17.1%

Past performance is no guarantee of future results. The indices are presented to provide you with an understanding of their historic long-term performance and are not presented to illustrate the performance of any security. Investors cannot directly purchase any index. SOURCE: WELLS FARGO

If my crystal ball wasn't in the shop, I would tell you exactly where we these markets are headed! Unfortunately, all we can do is try to do is prepare for what may come next. Accordingly, there is no better time than the present to take a look at your portfolio and reassess your investment strategy. It has been nine years since the financial crisis but for some, it still feels like yesterday. Contact us to re-examine your asset allocation and your investment time horizon to make sure you are comfortable. That way if the bull market does end, you will be ready.

Brett Larson
Portfolio Manager

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ROMANO NEWS

Romano Wealth @ FINRA Conference 2018

The Financial Industry Regulatory Authority (FINRA) is one of the main regulatory organizations overseeing investment firms and exchanges across the country. Our President, Joe Romano, is a small-firm Governor on FINRA's highest board, the Board of Governors, while our CCO/COO, Eric Bederman, serves on the Midwest District Committee. Both gentlemen were asked to speak on different panels during FINRA's 2018 Annual Conference in Washington D.C. We learn so much from these guys every day, it's great to see them share their knowledge at such a bigger level! See Eric and Joe in action.