C&J
WEALTH ADVISORS

COULTER & JUSTUS WEALTH ADVISORS
575 OAK RIDGE TURNPIKE, SUITE 203
OAK RIDGE, TN 37830

865-481-0385 *phone*
865-483-7930 *fax*

WWW.CJWEALTH.COM

October 11, 2018

Dear Valued Client,

US equity markets had a rough day yesterday with the Dow, S&P, & NASDAQ down 3.1%, 3.3%, & 4%, respectively. Collectively, our client accounts were down 1.54% yesterday. Whenever volatility jumps as it did yesterday, it usually indicates either forced selling from individual investors using margin (borrowed money) and/or selling from institutional investors as they reprice risk. Sometimes this type of volatility is sparked by changes in investor sentiment, which typically involves "knee jerk" reactions surrounding some news item of the day. Other times, the volatility is driven by fundamental factors, which have a heavier bearing upon the intermediate-term direction of stock prices. Yesterday's volatility was a combination of both sentiment and fundamentals in our opinion. While the US economy continues to impress with solid performance across a broad number of statistics, investors sold yesterday due to the relative strength of the 10-year US treasury yield, which reached 3.23% on October 5th and closed yesterday at 3.21%, which marks the highest levels we've seen since the spring of 2011. In mid-September, the 10-year US treasury yield was 2.94%, so the upward trajectory of 29 basis points in 15 trading days has made investors more cautious. Why does this matter? As we've said in the past, interest rates are like gravity on the financial markets. As interest rates and debt levels move higher, the stronger the gravitational pull, so to speak. Investors focus on the direction of the 10-year US treasury yield because it's a key input that's used when pricing stocks and discounting cash flows. Today, the difference between a 2-year treasury yield and a 10-year treasury yield is only .34%, so 10-year treasury yields today are not effectively capturing an adequate term premium for the eight-year difference in maturity, nor does it

C&J
WEALTH ADVISORS

COULTER & JUSTUS WEALTH ADVISORS
575 OAK RIDGE TURNPIKE, SUITE 203
OAK RIDGE, TN 37830

865-481-0385 *phone*
865-483-7930 *fax*

WWW.CJWEALTH.COM

adequately reflect upon the underlying strength of the current economic environment or rising inflation expectations. We believe that this pricing anomaly in the markets will gradually change as inflation pressures build and as the Federal Reserve continues to reduce the amount of support it currently provides to the bond markets. Where the 10-year treasury moves to, how quickly it gets there, and how the economy absorbs/reacts to those interest rate changes are all important questions on the minds of investors.

Broadly speaking, we believe this process will be healthy for the capital markets as it should begin to penalize companies with excessive debt as well as force investors to more closely scrutinize stocks with valuations built upon hype instead of profit. In our opinion, Tesla is the posterchild of the current environment. Fortunately, our fundamental value investment approach does not own stocks like Tesla, so if the market does enter a period of volatility, we believe the individual stocks and mutual funds within client portfolios will exhibit their resiliency. Despite the growing number of investors that have chosen a passive, ubiquitous approach of owning index funds with the lowest expense, we believe that being selective in what you own matters, valuation matters, balance sheet strength matters, and risk management matters, particularly so during periods of market volatility. It's a pleasure working with clients who trust us and believe in these precepts of investment management.

In summary, while there are some vulnerable areas of the market where capital has been misallocated, the broad backdrop for the economy remains very strong and there is no indication of recession in sight. Rising interest rates are a natural by-product of this economic growth, which also tends to create volatility in the capital markets as it helps remove some of the excesses in the business cycle. This is normal, and we will continue to navigate the markets judiciously. Feel free to reach out to us if you have questions on your account specifically.

WEALTH ADVISORS

COULTER & JUSTUS WEALTH ADVISORS
575 OAK RIDGE TURNPIKE, SUITE 203
OAK RIDGE, TN 37830

865-481-0385 *phone*
865-483-7930 *fax*

WWW.**CJWEALTH**.COM

As a reminder, we invite you to come to our upcoming client roundtable and ask questions on October 19th at 9:30 in our Oak Ridge office. Please RSVP if you plan to attend and please feel free to invite someone to come along with you.

Best Regards,

C&J Wealth Advisors

J. Mark King, CFP®
Jeff Loos, ChFC®, LUTCF
Scott Smith, CIMA®

C&J
WEALTH ADVISORS

COULTER & JUSTUS WEALTH ADVISORS
575 OAK RIDGE TURNPIKE, SUITE 203
OAK RIDGE, TN 37830

865-481-0385 *phone*
865-483-7930 *fax*

WWW.CJWEALTH.COM

The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stock's weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of US equity performance. The MSCI World Index is a market capitalization-weighted index designed to provide a broad measure of equity market performance throughout 23 countries in the developed world.

The opinions and forecasts expressed may not actually come to pass. This information is subject to change at any time, based on market and other conditions and should not be construed as a recommendation of any specific security or investment plan. The advisor does not guarantee the accuracy and completeness, nor assume liability for loss that may result from the reliance by any person upon such information or opinions. Past performance does not guarantee future results.

Diversification can be thought of as spreading your investment dollars into various asset classes to add balance to your portfolio. Although it doesn't guarantee a profit, it may be able to reduce the volatility of your portfolio.