



Financial Advisory  
Service, Inc.

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# FAS Monthly Economic & Market Update

November 2019

As of October 31, 2019

# Contents

Economic Conditions..... 3

Market Conditions..... 4

Education..... 5

Disclosures & Index Definitions..... 9



# Economic Conditions

The U.S. economy grew at an annual rate of 1.9% in the third quarter of 2019 according to the advance estimate released by the Department of Commerce. GDP growth, albeit stronger than expected in Q3, has been slowing for two consecutive quarters as we have begun to see more weaknesses in both the domestic and global economies. The Fed cut rates in late-October for the third time this year and while Fed chair Jerome Powell signaled they do not anticipate a fourth cut before year end, he also indicated they don't foresee a rate hike until we see a significant rise in inflation, making the odds of a rate increase in the near future much lower. Markets responded accordingly and rose to new highs.

In earlier updates we discussed the disparity between manufacturing and non-manufacturing PMIs, specifically how manufacturing has been in contraction while non-manufacturing (the service sector) still remains in expansion territory. Both October PMI reports came in higher than in September, showing us that the consumer remains resilient in the face of a manufacturing slowdown. The October jobs report came in above estimates as well even considering a decline of 42,000 jobs due to the GM strike. While we continue to see strength in the economy, the weak spots that appear to be on the horizon such as manufacturing, declining business spending, continued trade tension and slowing global growth are all factors worth monitoring as we close out 2019 and enter 2020.



# Market Conditions

After bottoming out in early October and bouncing around resistance levels for the first half of the month, the trade truce mid-month was the catalyst that sent stocks back up to all-time highs. The S&P hit a fresh high at the end of the month while the Dow and NASDAQ followed two days after, reaching their new highs on November 1. The indices returned 2.04%, 0.48% and 3.66% for the month, respectively. The Dow continues to lag its U.S. counterparts as large components of the index – Boeing and McDonald's to name a few – struggled to keep pace with the broader market.

Much of the gains in October were driven by optimism on the trade front with the announcement of “phase one” of the U.S.-China trade deal as well as the third rate cut by the Fed. Recent monetary stimulus has lifted all tides but a weakening dollar helped international stocks keep up with the U.S. The MSCI EAFE returned 3.5% in October in dollar terms even though only returning 1.58% in local currency terms. All in all, no huge breakthroughs were made on trade or economic fronts but the Fed showed us they could continue to use monetary stimulus to keep markets going. Still, we need to be vigilant by questioning whether it will be enough if we do start to see the pockets of weakness spread?

Index Returns		
	Oct '19	YTD
S&P 500	2.04%	21.17%
DJIA	0.48%	15.94%
NASDAQ	3.66%	24.97%
MSCI EAFE	3.50%	13.70%
Barclays Aggregate	0.30%	8.85%



# Combating Fraud

Fraud and security is something we've discussed in the past but also a topic we never feel we can cover too much. The convergence of four major fraud risk factors for fraud have converged together as technology has advanced, creating the perfect storm for theft and fraud. First and foremost is internet saturation. Individuals and businesses are connected to the internet in some fashion or another 24 hours per day. Constant connection means lots of opportunities with endless available targets. Second is the internet of things (IOT). Our devices are constantly talking to each other, sharing data across platforms and providing multiple access points to criminals. The third piece is volunteered information. Personal information is willingly shared through social media platforms, providing criminals with valuable details about your personal lives. If someone had walked up to you 20 years ago and asked you your name, spouses name, birthday, where you work, etc. you most likely wouldn't have given them that information. But most people have Facebook, LinkedIn, Instagram, etc. which provides others with all of that info. Lastly is hacked information. This is the information not provided on social media and is often stolen from what we assume to be secure sources and sold on the dark web. For example, after the Chase hack in 2014 we were told to not worry because the hackers did not get any account information from the stolen data. However that's not what they were looking for. They were stealing and selling personal info.



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# Combating Fraud

Scams and frauds come in several different forms and criminals are always adapting. Some examples that come to mind may be IRS scams where the criminal poses as the IRS claiming there is a warrant out for your arrest if you don't pay the back taxes you owe or fake lottery winnings in which they claim you have won a lottery (which you never entered) and all you need to do is send the taxes due on the winnings. Criminals may also call posing as technical support claiming that your computer has been hacked and they need you to grant them access to it so they can install anti-virus software.

Another scam to be aware of is one that may be particularly more prominent among our clients, which is high-dollar purchases. These typically involve email interceptions in which criminals will gain access to an individual's email, see they have been exchanging emails with FAS, their realtor, and a title company and insert their own falsified wire instructions. The criminal may create a fake email address resembling the title company's email requesting the wire for the purchase, at which point the victim wires the funds to either a money mule or an account controlled by the criminal. They may even go as far as putting an active phone number on the wire instructions insisting you call and confirm the account details. When you call you would actually be speaking with the criminal confirming the falsified bank instructions. When making high-dollar purchases, or any kind of purchase involving a



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# Combating Fraud

third party wire, never rely solely on emails when making the transaction. Look closely at who the email is coming from and try not to use the phone information on the instructions, but rather look up the recipient's phone number online to confirm the wire instructions. Always be proactive about reaching out to the intended recipient yourself (or, as in most cases with FAS, allow your advisor to do it for you) and never give out bank information from a call you receive by any party claiming to be the recipient of your wire transfer.

Everyday criminals are getting smarter in their techniques to defraud innocent people. When reading an email always ensure the email address is legitimate. Fraudsters will often email messages to recipients attempting to trick them into revealing personal information. These messages may look identical to a normal email you would receive from say, your custodian (i.e. Schwab or Fidelity), informing you of a security alert on your account and may include a link that looks exactly like a link your custodian would send you. Any time you get an alert from your custodian it's best practice to open a new window and type in the website yourself. If the alert from the custodian is legitimate it will be in the messages section of your online account. If you do click on a link, ensure the website it takes you to is a legitimate website. Again, criminals will create websites which look identical to the real thing and



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# Combating Fraud

once you type in your username and password they now have that and can use it against you. Be on the lookout for email addresses and website URLs that may be slightly off such as `clientsupport@schwabb.com`. Always ensure the site ends in a “.com”. For instance, one of the more recent phishing scams led victims to a site that looked exactly like Charles Schwab’s except it was spelled with two B’s and ended in “.ru” (the “.ru” meant the site was based in Russia).

It is important to remain vigilant when being online, checking emails, surfing the internet, etc. Here are some best practices when it comes to protecting yourself from fraud and scams:

- Use caution and avoid clicking on links or attachments – access websites by opening a browser window.
- Hover over links or requests and look at the true URL that pops up before clicking.
- Check the sender’s domain to see if it matches their expected domain.
- Deploy spam filters.
- Be cautious when opening or downloading attachments.
- Look for unusual grammar, misspelling or urgent language in written communication.
- **NEVER** give out personal information over email or through an incoming phone call.



# Disclosures & Index Definitions

Under style performance boxes, indexes referenced in the equities section for large, mid and small reference the Russell 1000, Russell MidCap and Russell 2000 stock indices, respectively. The Barclays US Government, Barclays Credit and Barclays High Yield fixed income indices refer to Gov't, Corp, and HY, respectively. Short, Intermediate and Long refer to the time frame of the investments and their positions on the yield curve.

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Investments in bonds will be subject to credit risk, market risk and interest rate risk. Interest rates will have an inverse effect on prices of bonds. Bonds of lower credit ratings, also known as High Yield bonds which hold a rating of less than investment grade (BB+ and below), will have greater risks attached than will those of investment grade bonds and will experience greater volatility.

All dates are as of October 31, 2019 unless stated otherwise.

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## Index Definitions

The **S&P 500 Index** is based on the market capitalizations of 500 large companies whose stocks are listed on the NYSE and NASDAQ. This is widely regarded as the single best gauge of large cap US Equities.

The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue-chip stocks, primarily industrials. It is used as a barometer of how shares of the largest US companies are performing.

The **NASDAQ** is a market capitalization weighted index of the more than 3000 common equities listed on the NASDAQ Stock Exchange. These securities include American Depository Receipts, common stocks, real estate investment trusts, and tracking stocks.

The **MSCI EAFE (Europe, Australasia, Far East) Net Index** is recognized as the pre-eminent benchmark in the US to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America, Europe, Australia, and the Far East.

The **MSCI Emerging Markets Index** captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 822 countries, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **Barclays US Aggregate Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS, and CMBS.

All index information has been gathered from public sources who are assumed to be reliable, although we cannot guarantee the accuracy or completeness of those public sources.

