



DorchesterAdvisors LLC

Dushyant Pandit
Summit, NJ
908-608-1608

dpandit@dorchesteradvisors.com
www.DorchesterAdvisors.com



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Other than cash, only one of our 5 asset classes was up for Q1, 2018. After a long period of poor performance, the Commodities index showed a positive result. This underlines our belief that for long term results a well-diversified portfolio is important.

Volatility increased noticeably in Q1. Volatility (often confused with risk) is an inherent part of financial markets. In fact, the uncharacteristically low volatility in the equity markets in 2017 was, to us, unsettling. The SP-500 Index declined close to 10% off its high level during the quarter. Yet, the total returns for the quarter were about -3%.

We monitor markets regularly but did not have to take any defensive action in Q1. For some portfolios with large cash inflows, we used the lower market prices to invest the cash. Though cautious, our bias is towards equities because their fundamentals are still acceptable to us. Our approach is to accept uncertainty and focus on structuring sensible and prudent portfolios.

We plan to keep portfolios diversified across the 5 main asset classes with (currently) minimal exposure to fixed income and commodities, to rely on fundamentals and evidence-based investment strategies, and to be cost-conscious. We think that this approach will provide enough return, over time, for investors to make meaningful progress towards their financial goals, without taking undue risk.



GREETINGS, VOLATILITY - Q1 2018 MARKET REVIEW

The Markets (as of market close March 29, 2018)

The first quarter of 2018 began as the fourth quarter of 2017 ended: with strong market gains. The Nasdaq led the way by the end of January, posting a monthly increase of almost 7.40%, followed by the large caps of the Dow (5.79%) and the S&P 500 (5.62%). The employment sector remained strong, with 239,000 new jobs added in January and average hourly earnings climbing 0.3%. Consumer prices rose 0.5% in January, while personal income increased 0.4%. The trade gap continued to widen, which has proven to be a focal point of the current administration. Nevertheless, consumer confidence in the economy increased in January with expectations for continued strengthening in the coming months.

Volatility returned to the stock market in February, with each of the benchmark indexes listed here posting notable losses from the prior month. Nasdaq, while

Key Dates/Data Releases

**4/2: PMI
Manufacturing Index, ISM
Manufacturing Index**

**4/5:
International trade**

4/6:**Employment situation****4/10: Producer Price Index****4/11: Consumer Price Index, Treasury budget****4/12: Import and export prices****4/13: JOLTS****4/16: Retail sales****4/17: Housing starts, industrial production****4/23: Existing home sales****4/24: New home sales****4/26: International trade in goods, durable goods orders****4/27: GDP****4/30: Personal income and outlays**

down, fared better than the large caps of both the S&P 500 and the Dow. Investor concerns over rising inflation and interest rates seemed to trigger volatility. A strong labor report in February revealed a 2.9% increase in average hourly wages over a year earlier, the addition of 313,000 new jobs, and decreasing unemployment insurance claims. These factors combined to prompt investors to conclude that higher labor costs may eat into corporate profits, which might prompt the Fed to raise interest rates at a faster pace. February also saw long-term bond yields surge as evidenced by a 16-basis-point increase in yields for 10-year Treasuries, as bond prices fell.

While many markets closed for Good Friday, March was not a good month for the benchmark indexes listed here, except for the small caps of the Russell 2000. Otherwise, each of the indexes closed March in the red, led by the Dow, which was followed by the Global Dow, Nasdaq, and the S&P 500. March brought more concerns for investors with the administration's imposition of tariffs on steel and aluminum imports and the threat of a trade war with China. Much of the month saw retaliatory threats lobbed across the Pacific.

The first quarter as a whole saw only the Nasdaq post modest gains. The Dow fell by almost 2.50% by the end of the quarter, far outpacing losses suffered by the other indexes listed here. The Global Dow fell nearly 2.0%, followed by the S&P 500 and the Russell 2000. Prices for 10-year Treasuries fell by the end of the quarter, pushing yields up by 32 basis points. Crude oil prices closed the month and quarter at about \$64.91 per barrel by the end of March. Oil began the quarter at \$61.55 per barrel and remained over \$60.00 for much of the first quarter. Gold closed the quarter at roughly \$1,329.60 — ahead of where it opened the quarter (\$1,305.10). Regular gasoline, which was \$2.548 per gallon on February 26, soared to \$2.648 on the 26th of March.

Market/Index	2017 Close	As of March 29	Month Change	Quarter Change	YTD Change
DJIA	24719.22	24103.11	-3.70%	-2.49%	-2.49%
NASDAQ	6903.39	7063.44	-2.88%	2.32%	2.32%
S&P 500	2673.61	2640.87	-2.69%	-1.22%	-1.22%
Russell 2000	1535.51	1529.43	1.12%	-0.40%	-0.40%
Global Dow	3085.41	3026.70	-3.06%	-1.90%	-1.90%
Fed. Funds	1.25%-1.50%	1.50%-1.75%	25 bps	25 bps	25 bps
10-year Treasuries	2.41%	2.73%	-13 bps	32 bps	32 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Monthly Economic News

- Employment:** Total employment rose by 313,000 in February following January's upwardly revised total of 239,000. Employment gains occurred in retail trade, construction, professional and business services, and manufacturing. The unemployment rate remained at 4.1%. In February, total employment rose by 785,000. Over the year, the number of long-term unemployed was reduced by 369,000. The labor participation rate rose to 63.0%. The employment-population ratio increased to 60.4% in February. The average workweek for all employees increased by 0.1 hour to 34.5 hours in February. Average hourly earnings

increased by \$0.04 to \$26.75. Over the year, average hourly earnings have risen \$0.68, or 2.6%.

- **FOMC/interest rates:** The Federal Open Market Committee, meeting for the first time under new chair Jerome Powell, increased the federal funds target rate range by 25 basis points to 1.50%-1.75%. The Committee said the labor market is strong, but economic activity was described as "moderate." Inflation has moved little since the beginning of the year, yet the Committee expects prices to move up gradually over the next 12 months. The Committee forecasts more rate hikes throughout the remainder of 2018.
- **GDP/budget:** The third and final estimate of the fourth-quarter gross domestic product showed expansion at an annual rate of 2.9%, according to the Bureau of Economic Analysis. The third-quarter GDP grew at an annualized rate of 3.2%. Consumer spending rose 4.0%, with notable increases in durable goods spending (13.7%). As to the government's budget, February's deficit surged to \$215.25 billion, compared to January's deficit of \$49.2 billion. The fiscal 2018 deficit (which began in October 2017) is \$390.97 billion — an increase of \$40.35 billion, or 11.5%, above the deficit over the same period last year.
- **Inflation/consumer spending:** Inflationary pressures continued to show upward momentum in February. The personal consumption expenditures (PCE) price index (a measure of what consumers pay for goods and services) ticked up 0.2% for February following a January gain of 0.4%. The core PCE price index (excluding energy and food) also jumped ahead 0.2% in February. Personal (pre-tax) income increased 0.4% and disposable personal (after-tax) income climbed 0.4% over the prior month. Personal consumption expenditures (the value of the goods and services purchased by consumers) climbed 0.2% in February, the same increase as the prior month.
- The Consumer Price Index rose 0.2% in February after climbing 0.5% in January. Over the last 12 months ended in February, consumer prices are up 2.2%. Core prices, which exclude food and energy, are up 1.8% for the year.
- The Producer Price Index showed the prices companies receive for goods and services also jumped 0.2% in February. Year-over-year, producer prices have increased 2.8%. Prices less food and energy increased 0.2% for the month and are up 2.5% over the last 12 months.
- **Housing:** Home sales were a mixed bag in February. Total existing-home sales jumped 3.0% in February following a 3.2% dip in January. Year-over-year, existing home sales are up 1.1%. The February median price for existing homes was \$241,700, which is 5.9% higher than the February 2017 price of \$228,200. Inventory of existing homes for sale rose 4.6%, representing a 3.4-month supply. New home sales fell in February. The Census Bureau's latest report reveals sales of new single-family homes fell 0.6% in February. The median sales price of new houses sold in January was \$326,800 (\$323,000 in January). The average sales price was \$376,700 (\$382,700 in January). There were 305,000 houses for sale at the end of February, which represents a supply of 5.9 months at the current sales rate.
- **Manufacturing:** Industrial production edged up in February, increasing 1.1% compared to a downward-revised 0.3% drop in January. Manufacturing output grew at a rate of 1.2% — its largest gain since October. Capacity utilization for manufacturing also rose 0.7 percentage point in February, coming in at 78.1% — its highest reading since January 2015. New orders for manufactured durable goods climbed 3.1% in February following a 3.5% revised January decrease. For the year, new durable goods orders are up 8.9%.
- **Imports and exports:** The advance report on international trade in goods

revealed that the trade gap increased in February from January, rising from \$75.3 billion to \$75.4 billion. Exports of goods for February jumped 2.2% following January's 2.4% drop. Imports of goods increased 1.4% after falling 0.2% in January. Still, total imports (\$211.9 billion) far exceeded exports (\$136.5 billion). Prices for both imported and exported goods and services advanced in February. Import prices rose only 0.4% for the month, while export prices increased 0.2%. For the year, import prices climbed 3.5%, while export prices jumped 3.3%.

- International markets:** Heightened worries of a trade war dominated international markets, as tariffs imposed by the United States on steel and aluminum went into effect. Trade with China became testy as President Trump announced tariffs on Chinese goods, prompting China to impose tariffs on U.S. imports. Elsewhere, the Bank of England maintained its monetary policy, leaving interest rates at 0.50%. The bank rate has not increased since last November. However, it appears interest rates are going up at some point this year. Most foreign stock indexes were subdued for March, with only a few countries' indexes making marginal gains. European stocks dipped to lows approaching early 2017 values. Most major Japanese indexes are well in the red year-to-date, while China's benchmark stock index has felt the brunt of the apparent trade war with the United States.
- Consumer sentiment:** Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, decreased in March following an increase in February. The index sits at 127.7, down from 130.8 in February (an 18-year high). According to the report, consumer expectations were less positive in their assessment of current economic conditions, while consumers' short-term expectations were tempered as well.

Eye on the Month Ahead

Moving to the second quarter of the year, the economy is expected to maintain its course of relative strength. However, if news out of Washington continues to concern investors, market volatility is likely to prevail.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide.

The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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