

# THE EDUCATED INVESTOR

**A Guide to Retirement Planning**



## FEATURED ARTICLE

### More on Fed Rate Cut Implications

**The Federal Reserve (Fed) is likely to start an easing cycle this week, which has several investment implications.**

We have written a fair amount about the Fed's U-turn in policy stance this year. That reversal from raising rates to presumably lowering them will become a reality if the Fed cuts rates at this week's policy meeting, which

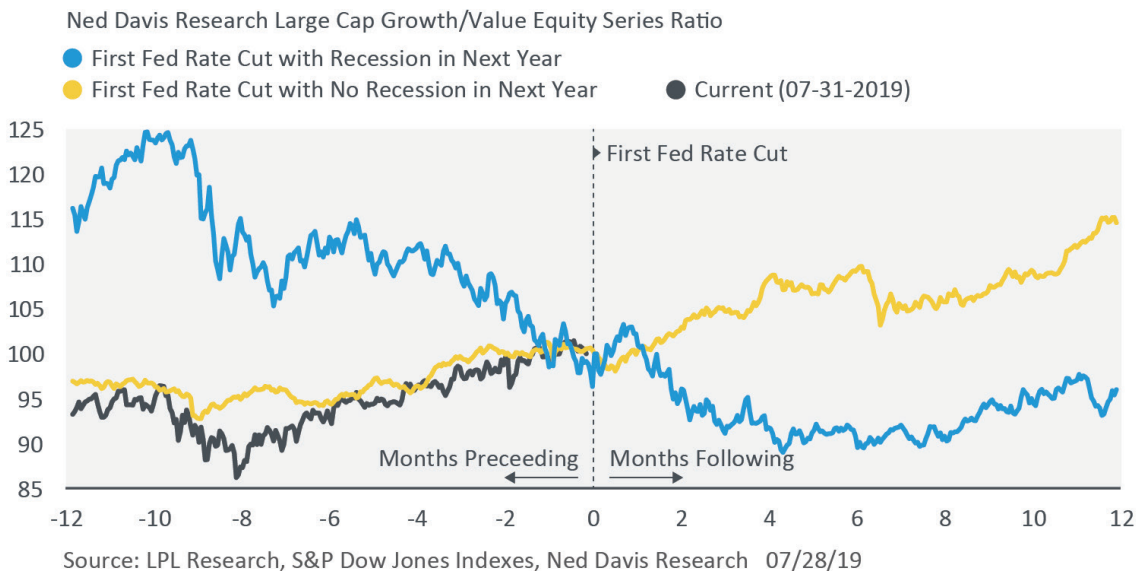
concluded on Wednesday, July 31. Here we look at some potential asset allocation implications from this monetary policy transition.

### **Growth VS. Value**

First, let's look at what initial Fed rate cuts might mean for growth stocks. This 10-year-old bull market has been powered by growth stocks. Much of that bull market has been accompanied by abnormally low interest rates and Fed bond purchases, also known as quantitative easing. Does that mean Fed rate cuts will fuel more gains for growth stocks?

To help answer that question we looked at a study from

## 1 FEDERAL RESERVE MAY DELAY TRANSITION TO VALUE LEADERSHIP



Index performance normalized to 100 at first Fed rate cut. An upward sloping line indicates growth stocks outperformance value stocks.

Past performance is no guarantee of future results.

our friends at Ned Davis Research. The study looked at past initial Fed rate cuts to see how the relationship between growth and value stocks changed before and after those transitions. As you can see in Figure 1, in the absence of a subsequent recession within one year, growth stocks have done quite well relative to value after initial Fed rate cuts. If a recession occurred within one year of the initial rate cut (not our expectation at this time), the growth-value relationship was a pitched battle. (Note that these studies are based on Ned Davis' classifications of growth and value stocks, which differ from the Russell indexes we normally use.)

The chart also shows that in the historical non-recession scenarios, growth stocks started to outperform about nine months on average before the rate cuts. In the past year, growth stocks started a run of out performance November 19, 2018, a little more than eight months ago. This growth out performance may signal continued economic growth and no recession over the next year, matching our view.

We would still recommend tilting equity allocations slightly toward the value style because of the duration and magnitude of the growth rally, which has left value stocks attractively valued in our view. Our positive financials sector view also points to a potential reversal of the growth rally. However, we recognize the counter arguments. Growth may get a boost from the anticipated

Fed rate cut and is enjoying strong momentum from a technical analysis perspective. As a result, we suggest keeping any value tilts small.

## 2 LARGE CAPS MAY GET A FED BOOST IF NO RECESSION



Index performance normalized to 100 at first Fed rate cut. An downward sloping line indicates small cap stocks underperforming large cap stocks.

Past performance is no guarantee of future results.



## Sector Implications

The most obvious sector impacted by the Fed is financials, although Ned Davis Research has pegged financials as a market performer after initial rate cuts historically. Still, we believe attractive valuations, increasing dividend payouts, a continued favorable regulatory environment, and the potential re-steepening of the yield curve (meaning short-term rates would potentially fall back below long-term interest rates) could benefit the big banks, which generally posted good earnings over the past couple of weeks.

The best performing sectors after initial Fed rate cuts have historically been consumer staples, healthcare, and industrials. We prefer industrials from this group. Again, large cap stocks have tended to do better as economic cycles aged, and more defensive sectors generally fared well too. We continue to wait for healthcare valuations to fall further amid election-related policy risks before considering a more positive stance toward that sector. We do not believe the cycle is close enough to its end to recommend one of the most defensive sectors — consumer staples. Finally, technology's rack record around initial rate cuts has been mixed, but we like the sector's growth opportunities enough to maintain our positive view.



Though it's not a sector, also consider that Fed rate cuts may take some wind out of the U.S. dollar's sails, which could support currency-sensitive assets such as emerging markets (equities and bonds) and gold. We have a positive view of emerging market equities, and we're warming up to gold.



## Conclusion

The Fed will almost certainly cut rates this week — which will have implications for equity markets. As we explained last week, our bias is for stocks to go higher over the balance of the year, supported by Fed rate cuts and potentially more U.S.-China trade progress. However, gains from current levels of the S&P 500 Index may be modest and could come with more volatility.

The start of a Fed rate-cutting cycle could prolong the period of growth leadership and delay a potential value rebound. Large cap stocks may also enjoy tailwinds from a more accommodating Fed. Finally, we continue to favor financials, industrials, and technology among the equity sectors while emerging markets and gold may be a beneficiary of a more accommodative Fed.



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All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.

## DEFINITIONS

Price to Forward Earnings is a measure of the price-to-earnings ratio (P/E) using forecasted earnings for the P/E calculation.

## INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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## Dividend-Paying Stocks: A Potential Source of Income

If you're looking for an investment-income source, you may want to consider adding dividend-paying stocks to your portfolio. They may be especially appealing to retirees or investors who aren't comfortable with a lot of risk.

## Going with the Flow

Some companies, such as utilities and financial institutions, pay cash dividends to stockholders on a quarterly basis. These stocks may experience less volatility than stocks that don't pay dividends. When the stock market declines, investors tend to seek out dividend-paying stocks, boosting the stocks' prices.

Dividends may also be appealing because they receive favorable tax treatment. For investors in higher tax brackets, the tax rate they pay on qualified dividend income could be significantly less than the tax rate they pay on other types of ordinary income, such as interest.





## Following your Own Current

Dividend-paying stocks are an investment option even if you're not looking for income. You can reinvest the dividends in additional shares of stock and benefit from compounding. Plus, the value of your stock could go up due to price appreciation. Keep in mind, however, that you must still pay tax annually on dividend income -- even if it's reinvested.<sup>1</sup>



## Don't Get Swept Overboard

Also keep in mind that dividends aren't guaranteed. Choose your dividend-paying stocks carefully since some companies may increase dividends to attract investors if their finances aren't watertight or their image is murky.

Looking at the dividend yield can help you evaluate a stock's dividend-paying history. Of course, just having a high yield doesn't mean the stock is definitely a good investment, and past performance doesn't guarantee future results. The amount of any dividend may vary over time.

Your financial professional can help you determine if a dividend-paying stock is a good fit for your portfolio.

Source Disclaimer

<sup>1</sup>Companies that offer dividend-paying stocks cannot guarantee that they will always be able to pay or increase their dividend payments.

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Make the most out of the last few months of summer; check out the Summer To-Do List for fun activity ideas!

## Summer FAMILY BUCKET LIST

1. Go to the zoo.
2. Have a "yes day"
3. Go out for ice cream.
4. Visit the splash pad.
5. Have a water balloon fight.
6. Have a picnic in the park.
7. Go see a movie as a family.
8. Let the kids stay up late.
9. Take a weekend road trip.
10. Make a homemade treat.
11. Go hiking.
12. Go bowling with the family.
13. Have a pajama day.
14. Take a trip to the farmer's market.
15. Go garage sale hopping.
16. Have a family game night.
17. Have a movie marathon.
18. Take a day trip somewhere new.
19. Eat a snow cone.
20. Explore your city.

[www.loveandrenovations.com/summer-bucket-list-ideas/](http://www.loveandrenovations.com/summer-bucket-list-ideas/)

# Glazed Agrodolce Ribs



## INGREDIENTS:

- Two 4-pound racks of pork spareribs, membranes removed
- 1 1/2 tablespoons fennel seeds, crushed
- 1 1/2 tablespoons finely chopped thyme
- 2 teaspoons crushed red pepper
- 2 teaspoons finely chopped rosemary
- Kosher salt Freshly ground black pepper
- 2 tablespoons extra-virgin olive oil
- 1 small red onion, coarsely grated
- 3 garlic cloves, finely grated
- 1 cup balsamic vinegar
- 1/4 cup white distilled vinegar
- 1 cup ketchup
- 3/4 cup packed light brown sugar

**SERVING: 8**

## INSTRUCTIONS:

### Step 1

Preheat the oven to 325°. Line 2 large rimmed baking sheets with foil and set the ribs on them, meaty side up. In a mortar, crush the fennel seeds with the thyme, crushed red pepper, rosemary, 1 1/2 tablespoons salt and 2 teaspoons black pepper. Rub the spice mix all over the ribs and roast for about 2 hours, until the meat is tender.

### Step 2

Meanwhile, in a medium saucepan, heat the olive oil. Add the onion, garlic and a generous pinch of salt and cook over moderately high heat, stirring, until the onion is softened, 3 to 5 minutes. Add both vinegars along with the ketchup and brown sugar and bring to a boil. Simmer over moderate heat, stirring frequently, until the sauce is thick and reduced to 2 cups, about 15 minutes.

### Step 3

Remove the ribs from the oven and turn on the broiler. Brush the underside of the racks with some of the sauce. Broil 1 sheet of ribs 8 inches from the heat until browned. Flip the ribs and repeat on the other side. Move the ribs to the bottom rack of the oven to keep warm while you glaze the rest.

### Step 4

Transfer the racks to a work surface. Cut in between the bones to form individual ribs and mound on a platter. Pass the remaining sauce at the table.

<https://www.foodandwine.com/recipes/glazed-agrodolce-ribs>



# The Sudoku Section



					4		3	
		9		7		2	8	6
								7
	8			1				2
	7	4				8	9	
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	3		4	8	1			

9	2	6	1	8	4	7	3	5
8	1	3	7	5	6	2	9	4
4	5	7	3	2	9	6	1	8
3	7	5	2	4	8	1	6	9
1	9	8	6	3	5	4	7	2
2	6	4	9	1	7	5	8	3
7	4	1	8	9	2	3	5	6
6	8	2	5	7	3	9	4	1
5	3	9	4	6	1	8	2	7

*The answers*

<http://www.printmysudoku.com>