

Economic & Market Commentary

Market Update – June 2019

It was hard to go wrong in June! Every major asset class rose during the month to round out the second quarter. Global stocks rebounded in June, gaining 6.4% - now having risen 16.1% in 2019. Bonds, led by international bonds (+1.7%), were broadly positive as well due to falling interest rates. While mixed on the year, alternative assets were all positive during June as well.

Economy

- Inflation (Consumer Price Index) dipped slightly in June to +1.8% year-over-year.
- Perhaps due to trade skirmish fatigue, after a few months of gains, the Consumer Confidence Index fell 9.8 points.
- The Leading Economic Indicators Index (2.2%) continued the recent trend of modest year-over-year gains.

Stocks

- The S&P 500 surged 7.0% in June while U.S. small stocks managed a 7.1% advance. The materials sector (+11.7%) led the charge among U.S. stocks.
- International large stocks (+5.9%) made muted gains relative to their U.S. counterparts.
- Pushed by Russia (+9.0%) and South Korea (+8.9%), emerging market stocks (+6.2%) generated the strongest contribution from international stocks.

Bonds

- Falling interest rates around the globe drove positive returns for international bonds (+1.7%) and intermediate-term bonds (+1.1).
- TIPS (+0.9%) and short-term bonds (+0.4%) benefited from the broader trend.

Alternatives

- Commodities (+2.7%) led the way, and REITs (+2.1%), reinsurance (+1.0%), and managed futures (+0.8%) all made solid gains in June to close out the second quarter.

Are You Misbehaving?

1) "I just got my annual bonus – let's go on vacation!" 2) "It was so obvious that the dotcom and housing bubbles would cause bear markets. Everyone saw that coming!" 3) "Based on that information, let's adjust our expectations a bit higher – but still consider our original estimate." 4) "Those sound like good changes to our financial plan, but why change anything? Everything is going fine with our current plan right now." Do any of these sound familiar? See below to learn which of these biases you may be unintentionally exhibiting.

Traditional finance assumes all market participants act as 'rational economic persons.' While all of our own decisions are perfectly rational (there's that overconfidence bias!), we know that many others do not always make rational decisions. For investors, it is important to understand, detect, and confront your own behavioral biases.

Behavioral biases are classified into two categories: cognitive errors and emotional biases. Cognitive errors are driven by informational deficiencies or faulty memory. Cognitive errors may cause investors to unconsciously tilt away from decisions that cause temporary distress in spite of the long-term evidence. Fortunately, cognitive errors can often be avoided, or at least mitigated, by seeking better information and qualified advice.

Emotional biases emerge from personal feelings that are often deeply rooted in past experiences. Unlike cognitive errors, emotional biases cannot necessarily be corrected with "the right answer." By asking the right questions, an advisor can adjust a financial plan to increase the odds of success.

Research from Vanguard, Russell Investments, and Morningstar estimate that an advisor's behavioral coaching alone may be worth anywhere between 0.5% - 2.0% of value per year. Less discussed than a comprehensive financial plan or optimized asset allocation; working with an advisor can provide significant value through the mistakes you don't make as a result of behavioral coaching!

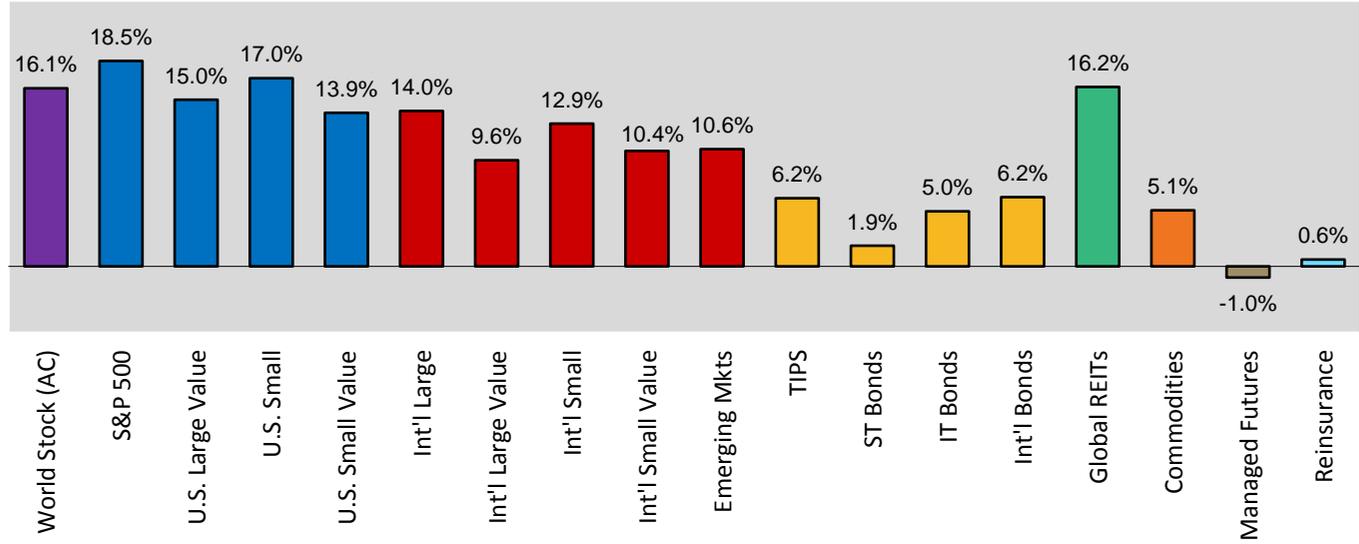
1 - Mental accounting bias, 2 - Hindsight bias, 3 - Anchoring bias, 4 - Regret aversion bias

Sources: St. Louis Federal Reserve, Morningstar, Russell Investments' "2017 Value of a Financial Advisor Update", Morningstar's 2017 "The Value of a Gamma-Efficient Portfolio", Vanguard's 2014 "Putting a Value on Your Value: Quantifying Vanguard's Advisor's Alpha."

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MARKET RETURNS
Year-To-Date as of 6/30/2019



MARKET RETURNS - Longer Term Annualized as of 6/30/2019

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
STOCKS							
S&P 500	7.0%	18.5%	10.4%	14.2%	10.7%	14.7%	8.8%
U.S. Large Value	6.9%	15.0%	8.7%	10.7%	8.2%	13.2%	8.0%
U.S. Small	7.1%	17.0%	-3.3%	12.3%	7.1%	13.4%	8.2%
U.S. Small Value	5.9%	13.9%	-4.7%	8.9%	5.7%	13.2%	8.1%
Int'l Large	5.9%	14.0%	1.1%	9.1%	2.2%	6.9%	5.3%
Int'l Large Value	5.3%	9.6%	-2.1%	8.5%	0.1%	5.5%	4.4%
Int'l Small	4.6%	12.9%	-6.0%	9.0%	4.5%	9.7%	7.9%
Int'l Small Value	4.8%	10.4%	-7.2%	7.8%	3.5%	9.4%	7.9%
Emerging Mkts	6.2%	10.6%	1.2%	10.7%	2.5%	5.8%	8.7%
World Stock (AC)	6.4%	16.1%	4.6%	11.4%	6.0%	10.3%	7.2%
BONDS							
TIPS	0.9%	6.2%	4.8%	2.1%	1.8%	3.6%	4.1%
Short-Term Bonds	0.4%	1.9%	2.9%	1.2%	0.8%	0.5%	1.5%
Interm-Term Bonds	1.1%	5.0%	6.9%	2.0%	2.4%	3.2%	3.7%
International Bonds	1.7%	6.2%	8.2%	3.2%	4.9%	4.5%	4.8%
ALTERNATIVES							
Global REITs	2.1%	16.2%	10.1%	4.6%	6.4%	13.4%	8.1%
Commodities	2.7%	5.1%	-6.8%	-2.2%	-9.2%	-3.7%	-2.6%
Managed Futures	0.8%	-1.0%	2.7%	-3.2%	3.9%	1.8%	5.3%
Reinsurance	1.0%	0.6%	0.2%	2.6%	3.7%	6.6%	6.9%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mtly Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

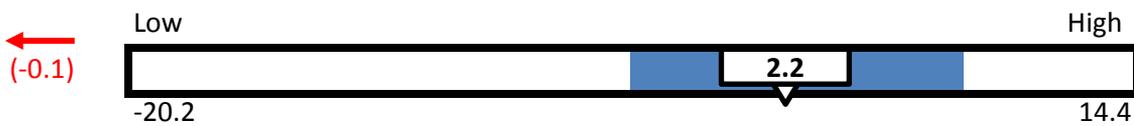
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Economic Indicators

Leading Economic Index Year over Year Change (%)



Unemployment (%)



Inflation CPI (YOY %)



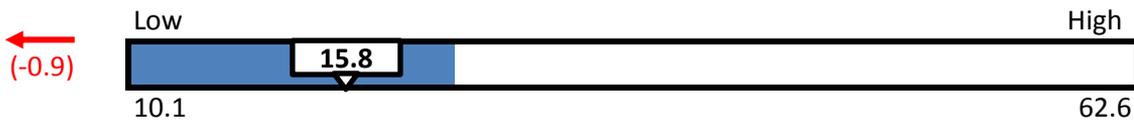
Real GDP Growth (%)



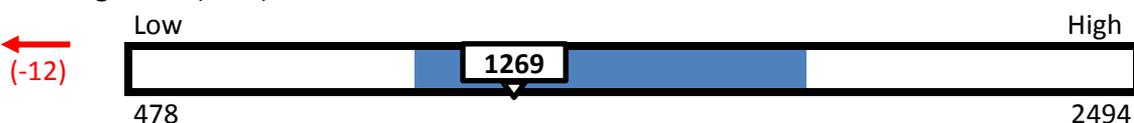
Consumer Confidence



VIX - Market Volatility



Housing Starts (000s)



10-year Treasury Yield (%)



 Typical range (within 1 standard deviation of the median)

 Current Value

 Historical Range

 Change in value since last month

*See appendix for sources and data ranges

Appendix

Leading Economic Index Year over Year Change (%)

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

Disclosure

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