Condor Capital Reviews 1st Quarter 2019

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The S&P 500 finished the quarter up 13.65%, marking the best quarter since 2009. The market responded resoundingly to news that trade talks with China were progressing and that the Federal Reserve was no longer looking to raise rates.

Most international markets bounced back from a dismal last quarter. Leading the pack was the Chinese market, which benefited from the apparent progress in the trade negotiations between China and the US. Even Europe, which has had to contend with Brexit, was able to post double digit gains in the quarter.

The Fed appears to have backed off from its 2018 stance of raising rates and their next move increasingly looks to be a rate cut rather than a rate hike. Investors were worried by the inversion of the yield curve that occurred in March, but markets already seem to be past it.

March 2019

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After a turbulent end to 2018 that saw the U.S. stock market give back all of the gains it had posted through last year's first three quarters, domestic equities staged a powerful recovery in the first quarter of 2019. In fact, the S&P 500 Index ended the quarter up 13.65%, marking the best quarter since September 2009 and the strongest first quarter on record since 1998. Many of the factors that had instigated the market sell-off in the fourth quarter of 2018 eased in the first quarter of this year, reversing the oversold environment of the fourth quarter. While we are still yet to see a finalized agreement on trade between the U.S. and China, the rhetoric on both sides did grow more conciliatory in the quarter, with top White House aides signaling that they were narrowing in on a deal. Additionally, the government shutdown came to a conclusion, providing some much-needed stability domestically. Finally and perhaps most importantly, the Federal Reserve pivoted to a more accommodative approach to monetary policy in the quarter. Investors had grown concerned that monetary policy was becoming too tight following the Fed's fourth rate increase of the year in December, and some questioned Chairman Jerome Powell's attentiveness to financial markets in his application of economic policy. Minutes from the Fed's January and March meetings, however, struck a more dovish tone, providing some much-needed reassurance to market participants. In a solid across-the-board quarter, growth stocks outperformed their value counterparts and mid-cap stocks outpaced small- and large-cap names.

As was the case in the United States, international equity markets generally posted good results following a mixed to poor fourth quarter. Chinese equities, which had been hit very hard by the ongoing trade dispute with the U.S., moved significantly higher in tandem with their American counterparts on the apparent progress and improving tone of negotiations, ending the quarter as one of the best-performing global equity markets. Even Europe, which has contended with uncertainty surrounding Brexit, rising indebtedness in some E.U. member nations, and intermittent weakness in the key economy of Germany, posted double-digit gains in the period, outperforming Japan and a number of emerging markets nations.

Fixed income markets generally posted stellar returns as well in the quarter. Corporate, government, municipal, and international bonds all posted notable gains, with high-yield and long-term bonds among the top performers. Corporate bonds outperformed their municipal counterparts for the most part and, like in the corporate space, high-yield municipal issues led the group. Internationally, emerging markets debt tended to outpace other international bond issues. Short-term issues, while still positive, underperformed most other types of debt, as these securities struggled to overcome a notable fall in longer-term yields that pushed those securities' prices up more than short-term issues.

Outlook - The first quarter of 2019 is a perfect example of the major benefits of maintaining a long-term outlook, as well as the pitfalls of attempting to time the market. While the market correction in the fourth quarter of 2018 was painful for many investors, the resurgence thus far in 2019 shows that the volatility and unpredictability of the stock market can be a positive as well as a negative. It would have been nearly impossible to foresee the exact date of the start of the downturn to sell out of the market, let alone to also predict the exact date that the market would bottom and buy back in. In fact, you are infinitely more likely to panic sell at a relative low point and miss out on the subsequent recovery using such an investment style. As a result, the proper approach to market volatility is to set a long-term allocation of both stocks and bonds based on your investment goals and objectives. Such an approach will allow you to participate in the upside when the stock market moves higher as well as have a layer of protection during downturns.

Looking ahead, concerns over the Federal Reserve have receded to the point that many market watchers believe that the central bank's next move is more likely to be an interest rate cut than another increase. President Trump's comments aside, any rate cut may provide a significant jolt to the stock market. While a rate cut is certainly not our base case, the Fed's March announcement that it would likely stop paring back its balance sheet as early as this September, just months after Powell's infamous comments that the program was on "automatic pilot," does show that the bank is becoming more accommodative and in-tune with markets than it was early in Powell's tenure.

Some significant attention was paid to the phenomenon of a flattening, and even briefly inverting, yield curve in the quarter. It is worth noting that a yield curve inversion is not synonymous with immediate recession . Moreover, this particular inversion was largely driven by weakness in Germany, one of the largest bond markets outside of the U.S., as poor manufacturing data pushed German bund yields negative, putting pressure on 10-year U.S. yields as investors rushed out of bunds and into Treasuries. We would also note that the highly important 2-year – 10-year spread is not inverted and the longest portion of the curve is still sloping upward nicely, indicating that the 'inversion' cited by some bearish investors is a bit cherry-picked.

Moving forward, we maintain a cautiously optimistic outlook. Even at the market's recent low point late in 2018, unemployment was low, GDP growth was consistently positive, and consumer spending and sentiment proved resilient. This backdrop remains intact heading into 2019, giving us confidence in the underlying domestic economy. While international markets have slowed a bit, we remain overweight to the U.S. relative to international markets and continue to monitor relatively anemic growth in developed markets like Europe and Japan. As always, we will continue to advocate for a diversified, long-term-oriented portfolio while remaining vigilant and making adjustments as our outlook changes.

See disclaimer on final page

Mergers & Acquisitions: What's in the Deal for Investors?

Recent years have seen plenty of M&A activity as industries consolidate. We explore the impact this recent phenomenon has had on investors and their returns.

Merger and acquisition (M&A) activity in North America and Europe reached its second highest level on record in 2018. There were 19,501 deals worth $3.6 trillion — a 6.3% increase in deal volume over 2017. There was also a rise in mega deals exceeding $10 billion.[1]

Collectively, U.S. corporations had plenty of cash to spend after a long string of solid profits and a significant tax cut.[2] High stock prices also provided plenty of equity for deals involving the exchange of stock, while relatively-low borrowing costs made it possible to finance acquisitions. The primary goal of a merger or an acquisition is to boost earnings growth by expanding operations, gaining market share, or becoming more efficient. Here's a closer look at these important transactions and some possible implications for investors.

Deal-making terms

An acquisition is the purchase of one company by another that is paid for with stock, cash, or both. The target firm is absorbed by the buyer, and the buyer's stock continues to trade. The target firm's shareholders may receive stock in the buying company and/or have the option to sell their shares at a set price.

A true merger occurs when two companies of roughly equal size combine into one and issue new stock. In this case, stockholders of both companies generally receive shares in the new company. Some transactions that are technically acquisitions are announced as mergers when the deals are friendly, with both sides agreeing to fair terms. When one company purchases a controlling interest in another against the wishes of the target, it's known as a hostile takeover; these transactions are typically announced as acquisitions.

Benefits and opportunities

Synergy is the financial benefit that is expected from the joining of two companies. This might be achieved by increasing revenue, gaining access to talent or technology, or cutting costs.

Bigger corporations typically benefit from economies of scale, which enables them to negotiate lower prices for larger orders with suppliers. In addition, combining two workforces into one often results in headcount reductions. Some mergers result in industry consolidation, but government regulators may scrutinize deals and/or block mergers that threaten competition. In other cases, companies may join forces across industries for strategic reasons or to diversify their lines of business. Disruptive competition from technology giants is one reason companies have been pursuing large mergers and novel cross-sector acquisitions.[3]

For better or worse

A successful merger should create shareholder value greater than the combined value of the separate companies. To accomplish this, the buyer must have an accurate assessment of how much the target company is worth.

When a deal is first announced, the share prices of both companies are likely to move up or down based solely on investor expectations. Of course, even a well-received merger could eventually be viewed as a disappointment if the merger fails to create enough value.

When a company pays more than the value of the other company's assets, the difference is recorded as "goodwill" so that assets match up with liabilities. Sooner or later, underperforming companies may have to take a write-down in that goodwill value, causing the company's share price to be discounted. Thus, only time will tell whether any particular deal will pay off in the form of future earnings growth or investor returns. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve higher risk.

[1] PitchBook Data, 2019

[2] U.S. Bureau of Economic Analysis, 2018

[3] The New York Times, May 3, 2018

How Much Money Should a Family Borrow for College?

Confused about how much money you should borrow for college? Don't worry, we have you covered. Read on to find out how much is too much.

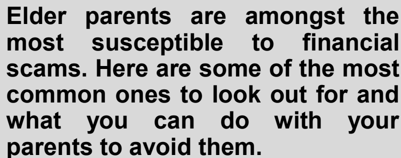
There is no magic formula to determine how much you or your child should borrow for college. But there is such a thing as borrowing too much. How much is too much? One guideline is for students to borrow no more than their expected first-year starting salary after college, which, in turn, depends on a student's particular major and/or job prospects.

But this guideline is simply that — a guideline. Just as many homeowners got burned in the housing crisis by taking out larger mortgages than they could afford, families can get burned by borrowing amounts for college that seemed reasonable at the time but now, in hindsight, are not.

Keep in mind that student loans will need to be paid back over a term of 10 years (possibly longer). A lot can happen during that time. What if a student's assumptions about future earnings don't pan out? Will student loans still be manageable when other expenses like rent, utilities, and/or car expenses come into play? What if a borrower steps out of the workforce for an extended period of time to care for children and isn't earning an income? There are many variables, and every student's situation is different. A loan deferment is available in certain situations, but postponing loan payments only kicks the can down the road.

To build in room for the unexpected, a smarter strategy may be for undergraduate students to borrow no more than the federal student loan limit, which is currently $27,000 for four years of college. Over a 10-year term with a 5.05% interest rate (the current 2018-2019 rate on federal Direct Loans), this equals a monthly payment of $287. If a student borrows more by adding in co-signed private loans, the monthly payment will jump, for example, to $425 for $40,000 in loans (at the same interest rate) and to $638 for $60,000 in loans. Before borrowing any amount, students should know exactly what their monthly payment will be. And remember: Only federal student loans offer income-based repayment (IBR) options.

As for parents, there is no one-size-fits-all rule on how much to borrow. Many factors come into play, including the number of children in the family, total household income and assets, and current and projected retirement savings. The overall goal, though, is to borrow as little as possible.



Elder parents are amongst the most susceptible to financial scams. Here are some of the most common ones to look out for and what you can do with your parents to avoid them.

Four Reasons Your Parents Might Be in Financial Trouble

As your parents age, they will probably need more help from you. But it may be difficult to provide the help they need, especially if they're experiencing financial trouble. Money can be a sensitive subject to discuss, but you'll need to talk to your parents about it in order to get to the root of their problems and come up with a solution. Before you start the conversation, consider the following four scenarios as signs that your parents might be experiencing financial challenges, and how you can make things easier for them.

1. They are dealing with debt

Perhaps your parents have fallen behind on their mortgage or credit card payments. Maybe they're dealing with the aftermath of a large, unexpected medical bill. Or it could be that years of generously supporting their children and grandchildren have left their finances in shambles.

Whatever the cause, debt among older Americans is a growing trend. In 2010, the average debt for a family in which the head of household was age 75 or older was $30,288. In 2016 (most recent data available), that number grew to $36,757.[1]

2. They are falling for fraud

According to a report by the Federal Trade Commission, older adults have been targeted or disproportionately affected by fraud. Moreover, older adults have reported much higher dollar losses to certain types of fraud than younger consumers.[2] Why do scammers target older individuals? There are many explanations for this trend. Some older individuals lack an awareness about major financial issues. Others may be attractive targets for scammers because they have access to retirement account assets or have built up home equity. Additional factors that increase an older adult's vulnerability to scams include cognitive decline and isolation from family and friends.

3. They aren't used to managing finances

The loss of a spouse can create many challenges for the survivor, especially if the deceased spouse was in charge of finances. Many widows or widowers might find themselves keeping track of statements, paying bills, budgeting, and handling other financial matters for the first time, which can be a complicated reality to face.

4. They struggle with change

As financial institutions continue to innovate and increase online and mobile access to customer accounts, it can be difficult for older consumers to keep up. For example, some older adults may struggle with accessing their financial information online. Others might get frustrated or confused when financial institutions implement new policies and procedures, especially if they've had an account with an institution for decades.

One report described the most common issues that older consumers identified with bank accounts or services. The top three complaints involved account management (47%), deposits and withdrawals (27%), and problems caused by low funds (12%).[3]

Ways you can help

Regardless of the reasons why your parents might be having money problems, there are steps you can take to help them.

Set up a meeting with a financial professional. Encourage your parents to meet with a professional to evaluate their financial situation.

Help them reduce spending. Look for big and small ways that they can scale back on expenses, such as downsizing to a smaller home, cutting cable plans, or canceling unnecessary memberships/subscriptions.

Have them tested for dementia. If you've noticed behavioral or memory changes in one or both of your parents, share your concerns with a medical professional. Cognitive decline can result in difficulty managing finances.

Lend money (using caution). If you decide to help your parents monetarily, consider paying your parents' expenses directly rather than giving them cash so you can ensure that their bills are paid on time.

Help them apply for assistance. The National Council on Aging has a website, BenefitsCheckUp.org, that can help you determine your parents' eligibility for federal, state, and private benefit programs.

[1] Debt of the Elderly and Near Elderly, 1992-2016, Employee Benefit Research Institute, 2018

[2] Protecting Older Consumers: 2017-2018, Federal Trade Commission, 2018

[3] Monthly Complaint Report, Vol. 23, Consumer Financial Protection Bureau, May 2017

More and more colleges are now offering college income share agreements. Read on to learn more about this alternative method of paying for college.

What is a College Income-Share Agreement?

A college income-share agreement, or ISA, is a contract between a student and a college where a student receives education funding from the college today in exchange for agreeing to pay a percentage of future earnings to the college for a specified period of time after graduation. The idea behind ISAs is to minimize the need for private student loans, to give colleges a stake in their students' outcomes, and to give students the flexibility to pursue careers in lower-paying fields.
Purdue University was the first college to introduce such a program in 2016. Under Purdue's ISA program, students who exhaust federal loans can fund their education by paying back a share of their future income, typically between 3% to 4% for up to 10 years after graduation, with repayment capped at 2.5 times the initial funding amount.[1]

A handful of other colleges also offer ISAs; terms and eligibility requirements vary among schools.

ISAs are considered friendlier than private student loans because they don't charge interest, and monthly payments are based on a student's income. Typically, ISAs have a minimum income threshold, which means that no payment is due if a student's income falls below a certain salary level, and a payment cap, which is the maximum amount a student must pay back relative to the initial funding amount. For example, a payment cap of 1.5 means that a student will pay back only 1.5 times the initial funding amount. Even with a payment cap, a student's payment obligation ends after the stated fixed period of time, regardless of whether he or she has fully paid back the initial loan.

[1] U.S. News & World Report, September 26, 2018

How Does the Federal Reserve Affect the Economy?

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If you follow financial news, you've probably heard many references to "the Fed" along the lines of "the Fed held interest rates," or "market watchers are wondering what the Fed will do next." So what exactly is the Fed and what does it do?

What is the Federal Reserve?

The Federal Reserve — or "the Fed" as it's commonly called — is the central bank of the United States. The Fed was created in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.

Today, the Federal Reserve's responsibilities fall into four general areas:

- Conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices
- Supervising and regulating banks and other important financial institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers
- Maintaining the stability of the financial system and containing systemic risk that may arise in financial markets
- Providing certain financial services to the U.S. government, U.S. financial institutions, and foreign official institutions, and playing a major role in operating and overseeing the nation's payments systems

How is the Fed organized?

The Federal Reserve is composed of three key entities — the Board of Governors (Federal Reserve Board), 12 Federal Reserve Banks, and the Federal Open Market Committee.

The Board of Governors consists of seven people who are nominated by the president and approved by the Senate. Each person is appointed for a 14-year term (terms are staggered, with one beginning every two years). The Board of Governors conducts official business in Washington, D.C., and is headed by the chair (currently, Jerome Powell), who is perhaps the most visible face of U.S. economic and monetary policy.

Next are 12 regional Federal Reserve Banks that are responsible for typical day-to-day bank operations. The banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Each regional bank has its own president and oversees thousands of smaller member banks in its region.

The Federal Open Market Committee (FOMC) is responsible for setting U.S. monetary policy. The FOMC is made up of the Board of Governors and the 12 regional bank presidents. The FOMC typically meets eight times per year. When people wait with bated breath to see what the Fed will do next, they're usually referring to the FOMC.

How does the Fed impact the economy?

One of the most important responsibilities of the Fed is setting the federal funds target rate, which is the interest rate banks charge each other for overnight loans. The federal funds target rate serves as a benchmark for many short-term interest rates, such as rates used for savings accounts, money market accounts, and short-term bonds. The target rate also serves as a basis for the prime rate. Through the FOMC, the Fed uses the federal funds target rate as a means to influence economic growth.

To stimulate the economy, the Fed lowers the target rate. If interest rates are low, the presumption is that consumers can borrow more and, consequently, spend more. For instance, lower interest rates on car loans, home mortgages, and credit cards make them more accessible to consumers. Lower interest rates often weaken the value of the dollar compared to other currencies. A weaker dollar means some foreign goods are costlier, so consumers will tend to buy American-made goods. An increased demand for goods and services often increases employment and wages. This is essentially the course the FOMC took following the 2008 financial crisis in an attempt to spur the economy.

On the other hand, if consumer prices are rising too quickly (inflation), the Fed raises the target rate, making money more costly to borrow. Since loans are harder to get and more expensive, consumers and businesses are less likely to borrow, which slows economic growth and reels in inflation.

People often look to the Fed for clues on which way interest rates are headed and for the Fed's economic analysis and forecasting. Members of the Federal Reserve regularly conduct economic research, give speeches, and testify about inflation and unemployment, which can provide insight about where the economy might be headed. All of this information can be useful for consumers when making borrowing and investing decisions.

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