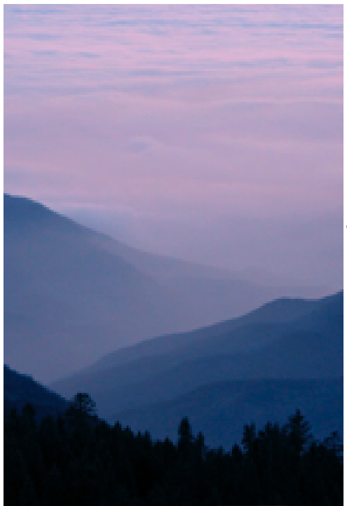


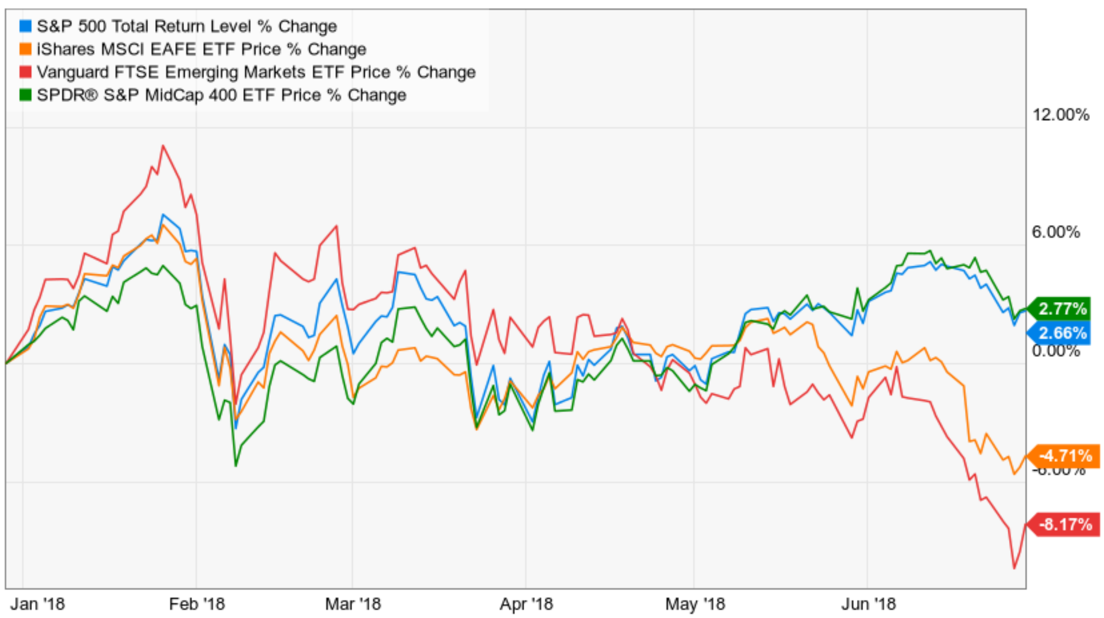
ASCEND
Investment Management, Inc.

# Quarterly Investment Report
# June 30, 2018

Dear Investor:

## Stocks 2018 Year-To-Date - A Wild Ride

**Mid Cap Domestic Stocks + 2.8%**
**Large Cap Domestic Stocks + 2.7%**
**Developed Markets International Stocks -4.7%**
**Emerging Markets International Stocks -8.2%**




It's been a wild ride for the first half of 2018. In the face of rising interest rates (the Federal Reserve increased the Fed Funds rate in March and June), a flattening yield curve (the yield spread between long and short treasury bond rates narrowed), and global tariff threats and potential trade war, U.S. stocks have managed to stay positive for the year. This is largely due to strong corporate earnings resulting from corporate tax cuts, massive deregulations for manufacturers and small banks, and global growth generally.

In the first quarter, Emerging Markets (red graph line) was the leading asset class as money flowed to those undervalued assets. But in the second quarter, investors punished Emerging Markets stocks in anticipation of struggles in the face of a stronger U.S. dollar in the 2nd quarter. Emerging market countries borrow in U.S. dollars and that debt becomes more expense to repay as their currencies weaken relative to the U.S. dollar. Additionally, commodities, which are priced in U.S. dollars, become more expensive. On the other hand, smaller capitalization stocks (green graph line) were rewarded in the 2nd quarter as they are less dependent on global supply chains and thus less vulnerable to tariffs.


610.547.3618
ellen@ascendinvmgt.com
www.ascendinvmgt.com

ASCEND
Investment Management, Inc.

610.547.3618
ellen@ascendinvmgt.com
www.ascendinvmgt.com

Our current economic expansion - since June 2009 - recently exceeded what was our second longest expansion in our history, which lasted 106 months in the 1960's. And, it wouldn't be too much of a surprise if we exceed the longest 120 month expansion in the 1990's. Statistics aside, recession is on people's minds. So, what may cause a recession? Asset bubbles and bank failures, increases, government policies, or something completely unknown.

Let's address the potential known causes: We aren't facing an asset bubble and banks have less debt and higher reserve levels than they have had in years. Stocks are not too expensive and earnings growth is strong (2nd quarter earnings are expected to log 20% growth). With regards to oil prices, the news that the U.S. will impose sanctions on countries that import any oil from Iran after November, 4th, has indeed nudged prices up, though time will soon tell how many countries will comply. And, Venezuela and Libya's ongoing production issues will continue to factor in as a boost to prices. But, we are cautiously hopeful that several other OPEC countries, led by Saudi Arabia, will raise output enough to keep oil prices within an acceptable range. The recent interest rate hikes are relatively benign in a world still awash in liquidity. To our mind, that leaves government policies, i.e., tariffs, as a possible trigger for the next economic slowdown or recession.

## Trade Tariffs

The topic of trade has become a fixture of the news cycle in 2018, leaving investors wondering where we stand with regards to tariffs and their potential impact on the economy. The global trade deals that have been established over the last many decades have worked well for global expansion, keeping business costs and consumer prices low, and increasing productivity. The magnitude of tariffs imposed so far by the U.S. and its trading partners is small compared to our Gross Domestic Product (GDP), but the negative impact could be devastating if the situation continues to escalate. It's important to separate the enacted tariffs from those still under discussion. The following summaries are based on the Tax Foundation's Taxes and Growth Model. The Tax Foundation is an independent tax policy non-profit based in Washington, D.C.

### Tariffs Enacted by the United States

What we know so far is that tariffs have been imposed on imports of lumber, washing machines, solar cells and modules, steel and aluminum, and starting on July 6th, various products imported from China. Together, these account for about $96 billion worth of imports, which is only about 3.6% of total imports. Total tax revenues would increase by about $21.6 billion. The estimated long-run hit to GDP is minimal at only .06% ($15 billion) with a net loss of 48,585 jobs.

### Tariffs Threatened by the United States

Currently under review are tariffs on imported automobiles and parts, as well as additional tariffs on Chinese products, to be executed if China enacts retaliatory tariffs. These threatened tariffs would amount to a tax increase of about $113.2 billion. GDP would be hurt in the long-run by -.3% ($82 billion) and 255,283 jobs would be lost.

### Retaliatory Tariffs Enacted and Threatened by Other Countries

Several countries have announced plans to impose tariffs in response to the U.S. tariffs on steel and aluminum. The tariffs target various products such as denim, bourbon, whiskeys and agricultural commodities for an estimated total tax of $16.93 billion. More counties are considering imposing retaliatory tariffs in the U.S., but haven't announced the details yet. The long-run effect on GDP would be -.05% ($12 billion) and 37,500 jobs lost.

### Total Impact of Enacted and Announced Tariffs

If all tariffs announced so far were fully enacted by the U.S and foreign countries, U.S. GDP in the long-run would fall by .44% ($110 billion) with a loss of 341,459 jobs.

610.547.3618
ellen@ascendinvmgt.com
www.ascendinvmgt.com

ASCEND
Investment Management, Inc.

## Economic Impact From Tariffs Enacted and Threatened

| | Impact of Enacted U.S. Tariffs | Impact of Threatened U.S. Tariffs | Impact of Retaliatory Enacted & Threatened Tariffs | Total Impact of Enacted & Threatened Tariffs |
|---|---|---|---|---|
| Tariff Revenue (Billions) | $21.61 | $113.25 | 0 | $134.86 |
| Long-Run GDP | -0.06% | -0.30% | -0.05% | -0.44% |
| GDP (Billions) | -$15.68 | -$82.33 | -$12.13 | -$110.15 |
| Wages | -0.04% | -0.20% | -0.03% | -0.31% |
| Full-Time Jobs | -48,585 | -255,283 | -37,590 | -341,459 |

It's still early days in this new tariff battle and the numbers are currently small and, if they are contained, should not materially alter the very positive current trajectory of U.S. growth and inflation. But, if all of the threatened tariffs see the light of day, and the Tax Foundation model is correct, then U.S. and global growth could significantly slow and the recession on many people's minds could be realized.

The problem with recessions is they typically develop when no-one is expecting them. So, the fact that economists are more frequently discussing the odds of a recession, is a good contrarian indicator. Taking escalating tariff wars out of the equation, our best guess is that an economic slowdown is not in the cards for the rest of 2018 or even 2019. However, given the current strength in corporate revenue and earnings growth and our historically low unemployment rate, we wouldn't be surprised if the economy overheats within the next year or two. The Fed would then be forced to hike interest rates substantially to fight inflation and bring us to an economic cooling off period or even a recession. Since the stock market typically reacts six to twelve months ahead of GDP declines, we could face the dreaded stock correction months before a contraction is obvious. If we bring tariff wars back into the equation, all bets are off, the economy may not have time to overheat and GDP could contract even much sooner.

So, do we sell all our stocks and wait for what seems inevitable? Of course not. We have written time and time again in this newsletter how foolish it is to try to time market corrections and economic downturns. It is next to impossible to know when to get out of the market and when to get back in to it. If you miss just a handful of the best performing days, overall long-term performance is significantly negatively affected. Corrections come and go and the best course of action is to ride through them for optimal long-term investment results and use those corrections as buying opportunities. It would also help to keep in mind your long-term asset allocation plan. Revisit it, and make sure it reflects your ability, both emotionally and financially, to weather market fluctuations.

*Wishing everyone a safe and happy Fourth of July holiday!*

Sincerely,

Ellen P. Le, CFA
President

ASCEND
Investment Management, Inc.

610.547.3618
ellen@ascendinvmgt.com
www.ascendinvmgt.com

# FEELING CHARITABLE?

**One way to cover your stock market blues is to help others. Here are a few things to think about…**

- You can only deduct donations if you itemize deductions on Form 1040; the new standard deduction threshold is $12,000 for individuals and $24,000 for couples.
- Make sure the charity is a qualified 501(c)(3) public charity or private foundation. There is a search tool on the IRS.gov website.
- Contributions to individuals are never deductible.
- Consider bundling several years of planned donations into one year to be able to use the deduction.
- Maintain good records for any amount of cash or non-cash donation.
- Make sure you receive a receipt from the charity for cash or non-cash donations over $250.
- For non-cash donations between $500-$5,000 you will need to provide information about how you got the asset, the date you received it, and your cost basis.
- You may need a qualified appraisal for non-cash donations that exceed $5,000.
- If you receive a gift (coffee mug, umbrella, theater tickets, etc.) when you donate, your allowable deductible value is the donation amount less the gift value.
- You can donate expenses associated with volunteer work, such as gasoline, tolls, parking fees.
- If you are older than 70.5 you can transfer funds (up to $100,000) annually from your IRA to a qualified charity and have it count as your Required Minimum Distribution. The distribution won't be added to your adjusted gross income. This benefit exists whether or not you itemize deductions.
- You can use appreciated stocks, bonds, or other assets from your taxable account for your donation and avoid paying capital gains tax. This benefit exists whether or not you itemize deductions.
- Most of us won't have to worry about it, but there is a charitable donation limit of 50% of your Adjusted Gross Income (AGI) to public charities and 30% of your AGI to private foundations. Amounts that exceed that threshold can be carried forward for five years.
- To be counted for 2018, donations need to be made by December 31, 2018.
- If you're not sure about how long your money will last, remember to talk with your financial advisor to establish a safe charity budget!