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Dow Jones Industrial Avg.	**24,103.11**	**Standard and Poor's 500**	**2,640.87**
2018(YTD) - 2.5%	1st Qtr. - 2.5%	2018(YTD) - 1.2%	1st Qtr. - 1.2%

Opportunity Knocking? – "The future is never clear; you pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values." Warren Buffett, investment manager par excellence.

On a Roll – The performance of the stock indices during the first quarter was unremarkable. In fact, both the Standard and Poor's 500 and the Dow Jones Industrials provided minor negative returns. A quick change in direction during the last two weeks in April helped to lift the market into positive territory, yet to listen to the commentators on the financial news networks or to read recent market assessments, it would be easy to conclude the bull market had resumed. Although a gradual rebound occurred, the path forward continues to be marked by instability.

Appearances can be deceiving, especially in financial markets reporting. Opinions and recommendations emanate from a range of sources possessing a wide range of credibility. Yes, the average investor can be easily led astray. One common deception is myopia on the part of the reporters or commentators. By tending to emphasize every near-term event, they condition investors to expect every market development to cause a market reaction. This results in investors being susceptible to overreacting to short-term developments of minor consequence. Another deception is dissonance of message. How much credence does the speaker have? How much objectivity does the speaker possess? For example, the expert presents a positive or negative opinion, which is not supported by the facts, yet the vulnerable investor succumbs to the psychological pressure to buy or sell right away. Another hazard for the investors to ignore or abandon is his/her long-term goals and objectives. This is a serious misstep because it jeopardizes the achievement of one's ultimate goals. Two extreme examples are to sell everything in a well diversified portfolio and purchase bitcoin or some other highly speculative security. A more common error is to liquidate everything because of fear the market is on the verge of a crash. Both of these examples highlight the hazards of the two great weaknesses of investors – greed and fear.

Protection from Dangers – Every investor can minimize the risks of investing by clearly defining their goals and objectives and attaining a basic understanding of what can be done to achieve them. Many choose to do this by working with a trusted financial advisor; others prefer to manage their own affairs. For those in the latter category, there are vast resources available to help guide them. However it requires a meaningful time commitment to acquire a reasonable knowledge base, as well as the understanding that a portfolio requires regular attention or monitoring. The amount of time required is a function of the complexity of the portfolio holdings. In addition to assessing the results and prospects of each fund or individual security, an investor needs to keep in mind that there are potential tax consequences to any change. Experience is the greatest teacher, but it can also be the cruelest. When in doubt, seek help.

Investment Horizon Hazy – Progress in the stock market so far this year has been marked by fits and starts and the results for the rest of the year are likely to be more of the same. Why? There are solid arguments to justify whether the glass is half full or half empty. My assessment indicates the glass is more than half empty, so caution is advised. On the positive side of the ledger, a healthy economy tops the list providing solid results with signs of sustainable positive momentum. Although economic growth in the first quarter was disappointing, much if not all of the shortfall was attributed to the harsh winter weather experienced in many parts of the country. The employment picture remains constructive as unemployment has fallen below four percent and monthly job additions continue at a respectable rate.

As a consequence of this tight labor market, wage levels have begun move higher after an extended period of stagnation near the two percent level. When the benefits of the tax cuts are added to better wages, it is predicted increased consumption will drive GDP growth back toward the three percent mark. With an improved economic outlook coupled with a more confident consumer, corporations will continue to produce good revenue and earnings growth. Such results will generally lead to higher stock prices and more dividend increases. So much for the optimism.

Concerns Abound - All is not rosy on the economic front. There are signs of decelerating corporate earnings. The tight labor market is in part responsible for higher labor costs given the shortage of skilled and qualified workers, which translates into the higher wages businesses must now pay to satisfy their needs. This may result in the return of cost-push inflation. Interest rate increases have already been signaled by the Federal Reserve (i.e., the FED), yet inflation was not listed as a justification. As the cost of money increases, it will gradually affect inflation. In addition to being an added burden to consumers and businesses, higher interest rates will place added pressure on governmental budgets.

Given the spendthrift ways of the politicians in Washington, any increase in the cost of servicing the nation's $20 trillion debt will put a squeeze on all other priorities. Equally critical is the funding crisis bubbling below the surface in the county's Big Three entitlement programs – Social Security, Medicare, and Medicaid. This demographic train wreck has been predicted for some time as more and more of the "boomer generation" reach retirement age; leave the work force; and begin to utilize these programs. The politicians in Washington have made it their practice to bury their heads in the sand whenever the topic of revising these programs has come into the spotlight. Their only recent attempt to put forth a solution of sorts was last year's large tax cut, which was meant to generate greater economic growth and more tax revenue, but also will result in expanded federal budget deficits into the foreseeable future. Result – more debt and greater interest payments.

Investment Outlook – How will the markets perform over the balance of the year? Modestly positive returns are a possibility, yet it appears more likely the stock market will at best mark time. To accentuate the positive, the business environment remains constructive. The employment picture is healthy. Wage levels are again showing an increase. Consumer confidence is high, and businesses are achieving both revenue and profit growth. The elections in November do have the ability to be very disruptive, more likely on the downside than the upside. The prudent approach toward stocks in a market like this is to be well diversified and to focus on quality. It is also a time to consider holding a larger than normal cash reserve. If five percent is your normal level, consider ten percent. If it's ten, consider twenty. This tactic provides you two advantages: first, you have a measure of protection, if the market dives. Second, you have the resources to take advantage of any bargains the market presents.

Both the FED and the stronger economy are expected to cause continued upward pressure on interest rates. This will benefit savers, but increase the cost to borrowers. Income investors need to decide whether or not they are being adequately compensated for any duration or quality risk they take. The safest course of action is to favor higher quality issues with shorter maturities. If rates do move higher as expected, they will be able to take advantage of the increases. U. S. Treasury and federal agency securities still offer the best risk-adjusted return.

News of Note - Once a year all financial organizations are required by law to provide all of their clients a copy of the firm's privacy policy and practices. Ours is included with this letter. Online security is a widespread concern. You can send sensitive or confidential files to us by utilizing our secure file upload tab on our website – lenkladner.com . Your data will be encrypted and transferred to our secure email host. Please call us if you have any questions about the process. In addition, to help you keep abreast of the everchanging tax code, we are providing you the 2018 Tax Reference Guide, which also includes helpful information relating to social security benefits, and college savings incentives. - JML