

MANNERS-KOESTERS MONITOR

Fall has arrived.....It's chilly out there!

3rd Quarter 2019



D|A|DAVIDSON

For What It's Worth

by Russ Manners

The third-quarter is now in the books and our attention turns to the wonders of fall colors, abundant crops, the quality of relief pitching and lately, toward monetary and trade policy. Volatility picked up in the third quarter in the stock market, but little changed from start to finish. We continue to make forward progress as this has turned out to be a pretty strong year so far. The bond market continues to rally as interest rates on the 10 year treasury approached all-time lows at 1.5%¹. At this time last year, rates had been moving up dramatically and the same 10 year bond was yielding over 3%¹. We have discussed the unique challenges that the current interest rate environment presents in recent quarterly updates and unfortunately we haven't gained any new insights into handling its unique challenges. We continue to think that there is significant risk in holding long-term or lowly rated bonds, however, as the chart below demonstrates our concerns have not been warranted, as the average intermediate term bond has returned close to 10% over the last 12 months. Here's a list from MorningStar of what's happened to various mutual fund categories over the past quarter, one year and five year periods.

<u>As of 9/30/19</u>	<u>3rd Qtr</u>	<u>1 YR</u>	<u>5YR</u>
Large Stock	1.45%	3.00%	8.98%
Small Stock	-1.27%	-7.70%	6.89%
Foreign Large Stock	-1.28%	-2.04%	5.55%
Intermediate Bond	1.99%	9.35%	2.95%
Health Care	-6.34%	-10.83%	7.05%
Natural Resources	-5.45%	-12.55%	-1.98%
Utilities	6.72%	19.98%	10.39%

The chart above also reminds us that the prolonged low interest rate environment has been a boon to utility companies, which lead the pack over all three periods listed. The clear laggard above has been the natural resource related stocks, primarily made up of energy companies. Declining oil and gas prices account for much of this decline but environmental concerns have also contributed to the general malaise in the group. We are all for reduced carbon omissions and clean air, however many of the experts we read don't think we can meet energy demands with predominantly wind and solar over the next decade or so. Even with the tremendous strides

made in renewables, we suspect it's a good bet that cleaner burning natural gas will have to be part of a multi-pronged attack in reducing carbon, while meeting world demand. We are hopeless bargain shoppers (contrarians) and are keeping a close eye on the beaten down energy sector where dividends are high and prices are low. It was interesting to note that in August, Berkshire Hathaway closed a \$10 billion deal to help Occidental buy Anadarko Petroleum. Berkshire also has taken advantage of tax incentives to invest in wind and solar projects. Perhaps they see a multifaceted approach as the most reasonable solution as well.

There's no doubt that investment bargains remain difficult to find, however, we continue to try and block out the daily sensationalist headlines and political theater. Our focus is modest: pare back the holdings we think too expensive and invest carefully in things we believe to have growth potential and reasonable margins of safety. We will also try to be opportunistic when we have some market turmoil. For example we were able to put a little cash to work in the fourth quarter last year when the S&P 500 dropped by almost 14%.

Speaking of political theater, I was unable to attend the traveling Hamilton production that came through Omaha. Nevertheless, it perked my curiosity, so I've been reading a little about the politics of post-revolutionary America. George Washington was the only president elected in the absence of political parties. In fact, the second-place vote getter (John Adams) became the vice president. Interestingly, on September 17, 1796 in Washington's farewell address, he said "Political parties are likely in the course of time, to become potent engines, by which cunning ambitious and unprincipled men will be enabled to subvert the power of the people and to usurp for themselves the reins of government, destroying afterwards the very engines which have a lifted them to unjust dominion". I'm afraid we are in desperate need of another pair like Washington and Adams to elevate our current political state of affairs. It's ironic with all that we have in common, it seems we choose to constantly dwell on our differences. In closing, we wish you the best in this season of Thanksgiving where we are most thankful for your continued trust.



Navigating Medicare's

"Alphabet Soup"

The annual Medicare Open Enrollment Period begins October 15 and runs through December 7. Now is a good time to review your current Medicare plan, or maybe you're approaching age 65. What worked for you last year may not work for you this year. Or perhaps your premium had a dramatic increase. Determining which prescription plan and supplement fits you best is complicated. If you would like to meet individually with a Medicare expert, please let us know.

¹<https://fred.stlouisfed.org/series/DGS10>

United Way Day of Caring

By Susan Koesters

It has become an annual tradition for D.A. Davidson employees from all 93 offices across the country to volunteer in our local communities. Local D.A. Davidson associates nominated and selected the nonprofit groups to serve, which represented a mix of organizations that included senior services, animal shelters, food banks and programs for the homeless and youth. Here in our local Omaha office, we had the option to serve two charities. Since it is our goal to not have all 4 members of our team gone at the same time in case a client needs us, we decided to divide and conquer! Jennifer spent her volunteer time at the Habitat ReStore, which is part of Habitat for Humanity. This is a store that accepts donations of new and gently used residential building supplies, household furniture, home décor items and select commercial items for sale to the public. All proceeds are used to benefit Habitat for Humanity. During her time, Jennifer sorted and priced donated items. Being the bargain shopper that she is...she priced the items to sell!

The other nonprofit we had the option to serve was No More Empty Pots which fights poverty with local foods, training, jobs and entrepreneurship in a low income and predominantly minority ethnic area. They also offer a commercial kitchen for students to take classes and it's available for rent to the public. We volunteered here last year and liked it so much that Kelli, Russ and I went back. During our volunteer time, we worked in the "Food Hub" which is based upon a system of interdependent activities including commercial kitchens, community café, cold/dry storage and food systems that deliver positive outcomes in job training, workforce readiness, food waste reduction, healthy food access, income generation and business development. Specifically, along with some of our other coworkers, Kelli and I sorted and cleaned out the basement of a 100+ year old building. Then we helped to assemble and label small envelopes of various vegetable seeds, which they hand out at community events. Russ spent his time cleaning the commercial kitchen where students are trained.

Our firm's 5 core values are expressed in the acronym "BISON". The "N" stands for Neighborly Spirit. Each of us has time, talent and/or treasure to offer support and participation in the communities in which we do business. We're fortunate to work for a firm that supports those opportunities and our communities benefit as well.





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Jennifer's Journey Back in Time

9/4/1888- Kodak is Founded

George Eastman received a patent for roll film and trademarked the name "Kodak"

10/16/1923 -The Walt Disney Company is Founded

A leader in the international entertainment industry, the company was created by brothers Walt and Roy as the Disney Brothers Cartoon Studio. Today, the company is synonymous with cartoon and animated movies and characters.

11/20/1985- Windows 1.0 released

Nearly two years after it was announced, Microsoft released its first graphical operating system. The OS made it easier for users to navigate on their computer screens. It came with Paint, Notepad, Calculator and a game called Reversi.

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www.timeanddate.com/on-this-day/
www.holidayinsights.com/history

About Us

We are comprehensive financial advisors specializing in individual portfolio management. We look for investments that we can truly understand and value. It is important to understand our "circle of competence" and stay within that circle no matter how promising a potential investment might appear. Sound investing requires discipline and the ability to keep emotions from corroding common sense — one of the greatest challenges to successful long-term investing. Our philosophy tilts towards well-established companies with solid balance sheets, good pricing power, and strong management. We strive to act like business owners. We search for the characteristics that an actual long-term owner would seek in choosing to purchase an entire business.

About D.A. Davidson

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