Regency
INVESTMENT ADVISORS℠

FOCUS360°

November 2019

Welcome (Back) to Regency!

Regency Investment Advisors welcomes three recent additions to the team. For one, it's not so much something new as it is coming home.


Bob Longatti

Bob Longatti was part of the executive management team at Regency Bank that in 1993 established Regency Investment Advisors.

Because of the continued growth of the investment company and the owners' steadfast focus on their clients, Regency decided to hire a president to concentrate on corporate structure, strategic planning, and special projects. Although he unofficially retired in 2015 from a highly successful banking career (people like Bob never really retire completely), Bob agreed to accept the position as well as remain on the Board because of his respect for the people at Regency and their dedication to their clients.

Bob is a graduate of Cal Poly San Luis Obispo. He and his wife reside on a small ranch in the Sierra Foothills and enjoy the rural lifestyle. Their interests revolve around family which includes four grandchildren.

Jim Nakamura may be young (he graduated with a degree in finance from Fresno State in 2016), but he's already an experienced entrepreneur. He has started two companies and worked in medical-equipment sales and real estate. When Regency approached Jim, though, he immediately saw an opportunity to build a career in his first love, finance. As Associate Advisor, Jim will work closely with Steve Guinn and the other Advisors in servicing clients. With his entrepreneurial background, Jim will also be closely involved in Regency's business development. Jim recently earned his FINRA Series 65 license. Jim lives in Clovis with his wife.


Jim Nakamura


Wade Wallace

Wade Wallace, a 2019 Fresno State finance graduate, is also an Associate Planner. Wade passed his Series 65 exam this year and will be working on financial planning projects with the Advisors. Wade worked in the moving industry while earning his undergraduate degree. Raised in the Madera Ranchos, where he still lives, Wade enjoys golfing, hiking, and traveling. He is single and has two brothers and two sisters.

A New Delivery System

In 2020, Regency will improve its client experience by using the client portal for electronic delivery of regulatory documents, updates, and quarterly performance reports. This will allow clients 24/7 access to current performance and historical statements.

In the coming months, Regency will mail login instructions to clients who don't already use the portal. All accounts in your household will be accessible with the same username and password.

Regency's Client Service Team is available if you have any questions about this enhancement. Simply call 559-438-2640, Monday through Friday, 8:00 a.m. to 5:00 p.m., and ask for Allison.

If you previously signed up but never activated the electronic portal, contact the Client Service Team and a welcome email, with an activation link good for 48 hours, will be sent to you.

REGENCY MARKET COMMENTARY: THROUGH OCTOBER 31, 2019

Key Indexes Source: Morningstar	YTD	1 yr	3 yr	5 yr	10 yr	20 yr
			ANNUALIZED RETURNS			
DJ Industrial Average – Large Cap	18.19%	10.32%	16.98%	11.93%	13.61%	7.25%
S&P 500 – Large Cap	23.16%	14.33%	14.91%	10.78%	13.70%	6.12%
Russell 2000 – Small Cap	17.18%	4.90%	10.96%	7.37%	12.27%	8.11%
MSCI EAFE – Foreign Large Cap	16.86%	11.04%	8.48%	4.31%	5.41%	3.71%
Barclays US Aggregate – Bonds	8.85%	11.51%	3.29%	3.24%	3.73%	5.01%
USTREAS 3-Month T-Bills	1.84%	2.35%	1.44%	0.90%	0.49%	1.71%
IA SBBI US Inflation	2.16%	1.49%	1.94%	1.52%	1.71%	2.12%

Since we last wrote to you, a lot has been going on. If you can give us a few minutes, we'll do our best to fill you in. In spite of seemingly endless concerns—which we will briefly review momentarily—markets have been generally strong, although there have been some uncomfortable stretches.

The short story: the market's rally continued since the end of April, though its pace slowed considerably and it had a number of up-and-down swings. The S&P 500 is now up over 23% year-to-date through the end of October, making up for the painful correction in late 2018. Most of this year's gain came in the first several months, but the S&P did pick up slightly better than 4% since the end of April. The Dow Jones was about one percentage point behind the S&P for the period, while the small-cap Russell 2000 actually fell back about a percentage point since our last letter. Large-cap international stocks benefited, gaining about 4% since our last letter to be up nearly 19% on the year.

Perhaps more eye-catching was the movement in bonds. The 10-year US Treasury, which was paying 2.50% in April, dropped all the way to 1.69% by the end of October, and was even lower briefly in August. That translates to a 6% price gain in bonds in a matter of months, a fairly remarkable occurrence. (We'll get to the dreaded inverted yield curve in a few moments.) The Federal Reserve has cut rates not once, not twice, but three times (in July, September, and October) since we last met, trying to provide insurance against a possible recession, and perhaps acting, however reluctantly, in response to President Trump's criticism of its relatively high rates. As we write its target range is 1.50% to 1.75%.

We note that inflation did pick up recently, exceeding the rate available on short-dated Treasury bills. It's a bit unusual to see that in conjunction with a bond rally—just one of the strange events that has taken place over the late spring, summer, and early fall.

Across the country in New England, they say that if you don't like the weather, just wait an hour. In the markets of late, if you don't like the action, just wait a month...or a week...or a day. As we so often see, this argues for a patient, long-term plan.

Let's start with probably the biggest overall market influencer, the ongoing trade war with China. In July, it seemed that a deal was near, and markets acted accordingly, making new highs. But in early August, President Trump announced new tariffs, and on the morning of August 23rd, he went a step further, increasing tariffs and ordering "great American companies to look for alternatives to China." Gold, notably, rose by 2% that day, while major equity markets went about that much in the other direction.

It didn't take long for the Chinese news to turn, at least somewhat. On August 30th, China said it wouldn't retaliate (at least not initially) for the increased tariffs. By mid-October, there was talk of a first-stage settlement of the trade war, and while many analysts were skeptical, the market reacted favorably.

The US trade war is not the only Chinese concern. The ongoing protests and riots (you choose the term) in Hong Kong have already started a recession there, with potential for broader implications. And, keeping focused on Asia for the moment, India's economy and markets have struggled enough over the past three years. The government in late September announced a major tax cut, at least momentarily turning markets higher.

It's clear that investors are paying up for "safety" in Europe, while companies don't seem eager to borrow for new projects. Negative rates make traditional saving far more difficult, and they have the perverse effect of allowing "zombie" companies that probably should shut down to keep going. Not surprisingly, the Euro hit its lowest level versus the dollar—less than 1.10—since May 2017.

A trip across the English Channel takes us to the Brexit saga. Skeptics have long wondered whether the UK will ever really leave, but it's almost the literal definition of uncharted territory. *(continued on page 4)*

Focus 360 Disclosure:

Past performance is not indicative of future results, and inherent in any investment in the market is a possibility of loss. There are inherent limitations in making assumptions due to the cyclical nature of the market.

David and Patty Bunker, Family Leadership/Parenting Partners

In "The Wizard of Oz," the main characters went to Emerald City seeking qualities they really had all along. They just needed a little guidance to find them within.

ABCD

Fresno-based Family Leadership, run by the husband-and-wife team of David and Patty Bunker, operates on a similar principle. The Bunkers subscribe to a theory developed at Northwestern University known as ABCD, for Asset Based Community Development. The words may sound confusing, but their meaning is simple. The right leaders to solve a community's problems, the assets, are already in place. The Bunkers don't just subscribe to this theory. They have put it into practice over the past 23 years, touching over 200,000 parents along the way.

David explains that in one of Fresno's poorest communities reside many parents with considerable medical experience and skills gained in their native countries. Because these parents are unable to get licensed here, they aren't able to offer their talents through traditional channels. But tapping into their knowledge makes a huge difference in their neighborhoods. The bottom line: parents want to get involved, and good things happen when they do.

Family Leadership brings teams of trainers to schools with poverty rates of at least 90%. It takes parents chosen by the principals and other school leaders and puts them through an intensive two-day leadership workshop, teaching them behaviors and principles they can immediately both put to work in their own households and teach to other parents.

The Family That Eats Together

Graduates of the two-day workshop then can teach other parents in weekly programs, including the cornerstone six-week course "Parenting Partners." Other courses are available, including one being run by sponsoring schools that anyone can take online. That course, the "Family Meals Challenge," can be found at myfamilymeals.org. It usually takes two to three hours to complete but can be done in pieces as small as five minutes at a time. The ideas behind the challenge are simple but powerful: families that have meals together eat healthier food, and their children are likelier to perform well in school and avoid developing addictions.

Positive Discipline

The concepts Family Leadership teaches are, again, simple but powerful. They involve encouragement instead of scolding, presence instead of distraction, maintaining boundaries instead of permitting arguments, and above all, the idea of positive discipline. What is that? Well, consider the typical seventh-grader and his or her new freedom, going to a number of different classes instead of a single room. Sometimes these kids think it's ok to cut class. Instead of punishing the kids when they get caught, David suggests the following remedy: have a parent tell the child, "if you don't make it to class, your teacher will call me and I'll come sit in your seat." It works. Principals, administrators, and teachers all acknowledge that they too benefit from learning these parenting techniques.

You may wonder why you haven't heard of Family Leadership. That's how David and Patty want it. They don't want to overshadow the efforts of the parents, the real heroes. They also don't need the publicity. In the early 2000's they connected with Minneapolis' Search Institute, one of the leading social-science think tanks focused on teenagers. The Search Institute helped develop manuals for Family Leadership and invited David and Patty to speak at events. Soon schools were calling, asking if Family Leadership could help.

Having started with 10 schools in the Central Valley, Family Leadership is now present on over 500 campuses. The good news: they're hiring.

From time to time FOCUS 360 will include profiles of people and organizations making a difference in our community. It is not known whether those profiled approve or disapprove of Regency Investment Advisors or its advisory services provided. This article reflects the opinions of those interviewed, and should not be taken as a request for you to donate to any particular organization.

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Market Commentary Continued

Enough about the overseas concerns. What about here in the States? We got a big scare in August when the yield curve inverted, with 10-year Treasuries paying less than 2-year ones. While it may sound odd that borrowing money for a much longer time is cheaper than in the near term (and it is), it's certainly not as odd as negative rates, which we thankfully don't have. But after a favorable purchasing manager's report in late August and an October "Goldilocks" employment number, not too hot, not too cool, the curve recovered its normal shape in September.

Still, why were we hearing so much about the inverted yield curve? Here's a very brief lesson. Historically, inverted yield curves (the name comes from the downhill slope on an interest-rate graph, with rates on the y-axis and time on the x-axis) have been reliable predictors of a recession, though the timing has varied considerably.

More importantly, remember that good financial practice involves matching assets and liabilities. That means you should pay for long-term projects with long-term financing (just as most people take long-dated mortgages when they buy houses). When 10-year rates are lower than 2-year rates, it suggests companies are eager to neither borrow or build.

Finally, put yourself in the position of a bank. Banks borrow short-term money and lend it long-term. If it generally costs them more to borrow than they can make from lending, they're likely to cut back on their activity, thus slowing the wheels on which the economy turns.
So inverted curves are uncommon, and they can be a bit scary.

What did we leave out? All kinds of US political activity, including an impeachment inquiry, the abandonment of a former ally in Syria, and frightening diplomacy with Iran. Oil briefly spiked 12% when a drone, reportedly launched or at least permitted by Iran, took out half of Saudi Arabia's oil production capacity, though it fell back in a matter of days. Over the period since April's close, oil took it on the chin, falling nearly 18% to just over $54. Gold had a big run since April, gaining over 15% to $1,512.

The bottom line: as we said initially, the ups and downs of recent months are yet more evidence of the importance of sticking with a long-term plan, subject to periodic rebalancing. Even—perhaps especially—some of the most volatile periods generally reward investors who maintain such plans.

Questions? Call your Regency advisor at (559) 438-2640.