

Happy Summer! Thanks for all of the positive feedback on our “short-paragraph” format in the first quarter letter. In addition to these perspectives, you will find a couple of attachments to the quarterly statement that we hope you will find useful.

### **What are you planning for?**

One of the best ways to achieve your goals is to plan for them. Our planning tools help to map your financial future so that your goals can become a reality. There are many life decisions that define future income, spending, and savings. We capture as much information as possible to build a plan which will add comfort to your financial outlook. We can also model different scenarios that show possibilities for retiring early, buying a new house, caring for aging parents or whatever you might be thinking. The future is uncertain, and making a good financial plan is essential to guide the choices that are right for you. Please let us know how we can help as you decide your goals.

### **Our Partnership with Community Foundation of New Jersey**

For almost two decades we have worked closely with CFNJ to help our clients effectively meet their charitable giving objectives. With a Donor Advised Fund at CFNJ you gain a significant financial advantage by receiving a tax deduction when you set up and donate to the fund. Then, over time you can give to the charities of your choice. Philanthropic experts at CFNJ are easily accessible and will help ensure that your gifts have a meaningful impact. Through our partnership your assets can be managed by Lucas Capital within the CFNJ Fund. Attached is a more detailed description of the CFNJ/Lucas Capital Donor Advised Fund. Please let us know how we might help with your charitable giving objectives.

### **The economy is chugging along at a slow steady pace**

The overall stock market has continued to improve in the 2nd quarter driven by steady economic signals. Payrolls continue to grow with the unemployment rate dropping to 4.3% -- the best we have seen in a decade (1). Consumer spending is increasing, housing prices continue to climb and the FED is slowly tightening monetary policy. There's no doubt that the US economy is on a gradual incline, but we remain cautious because there is “another side to this story” for many of the positive indicators:

- Unemployment is low, but partially because people continue to leave the labor force (2). Also, many people who hold part-time positions would prefer to have full time jobs.
- In the past, low unemployment led to higher wages, but for the past couple of years wages have been stagnant (3)
- GDP growth posted 1.2% in the 1st quarter, positive but at a sluggish pace. The economic expansion that started in 2009 is the slowest post-WWII recovery (4).

It appears to us that the economy may not be as optimistic as some of the headline numbers. We need a strong and growing economy to support higher stock prices. While we all appreciate the gains in the

stock market in 2017, unless we can keep the wheels turning to make the US economy stronger, continued increases in stock prices may be difficult to achieve.

### **Sector Diversification is a key to a balanced portfolio**

Our investment approach at LCM starts with holding the right allocation of stocks and bonds to set the appropriate risk / return profile for your investment objective. As a general rule, stocks provide a higher potential return with risk, while bonds offer a steady income and lower risk. All portfolios will have a target allocation of stocks and bonds that correspond to your investment objective. Within this stock “bucket” we further diversify by industry sectors. Sectors respond to economic and financial conditions differently based on a variety of factors including the business cycle, political environment and investor sentiment. At times Health Care will be the leader, while at other times Telecommunications will be ahead. The S&P 500’s increase of 9% for the first half of 2017 represents a combination of performance of various industrial sectors. Technology has been ahead this year gaining 17%, followed by an excellent performance in Health Care (up 16%) and Consumer (up 11%), while the Energy Sector dragged down the overall results being lower by 13 % (5). 2016 was a completely different story with Energy up 27%, Telecom and Financials each up 23% and healthcare down 3% (6). Balancing a portfolio’s stock allocation across these industrial sectors is a key to our diversification strategy and will help maintain consistent performance through economic cycles.

### **LCM Investment Objectives**

We have recently updated the documentation of Lucas Capital Investment Objectives. This change has evolved over the past few years as management of Bond Alternative, Balanced Income and Family Balanced Portfolios became more redundant. The five investment objectives that we currently offer are:

- **Aggressive Growth** - high equity concentration suitable for investors that are willing to tolerate volatility of account value in exchange for potential for high capital appreciation
- **Growth** - a majority of investments in the equity plus some fixed income with a goal of high capital appreciation
- **Family Balanced** - a core diversified portfolio intended to balance growth with preservation of capital
- **Balanced Income** - our most conservative portfolio which offers lower volatility for those clients who are most comfortable with more income than growth
- **Sector Specific** - managed up to 100% in a specific industry or directive

Attached to this quarterly statement is a letter which shows your investment objective. Remember that as we move through life, our financial goals change. We are always happy to discuss your portfolio, financial plans and investment objectives so together we can put you in a position to achieve your goals.

### **Shortening settlement times for securities**

On September 5, settlement time will shorten from 3 days to 2 days for stock and ETF transactions in your account. The settlement process is mostly invisible to you because it happens behind the scenes. As a result, you will pay for or receive funds for your securities trades in 2 days after the trade instead of 3 days after currently.

### **Enjoy the summer**

Summer is the traditional time of vacationing, relaxing, outdoor sports and spending time with family. We hope you have the opportunity to spend the warmer months enjoying the activities that are the most fulfilling. Our office is staffed every workday and we are always available to answer your questions or discuss your financial concerns.

We wish you a happy summer!

### **Ralf, Rob, Brett, and Bruce**

#### Sources:

1. <https://www.bls.gov/news.release/empsit.nr0.htm>
2. <https://www.usnews.com/news/the-report/articles/2015/07/16/unemployment-is-low-but-more-workers-are-leaving-the-workforce>
3. <http://www.npr.org/2017/06/13/532816915/despite-falling-unemployment-u-s-wages-stay-stagnant>
4. <http://money.cnn.com/2016/10/05/news/economy/us-recovery-slowest-since-wwii/index.html>
5. <https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer>
6. <https://am.jpmorgan.com/blob-gim/1383280028969/83456/jp-littlebook.pdf>

*Be sure to let us know if your family circumstances have changed in a way that could alter your investment profile and objectives. We welcome your questions or comments, or would be happy to review your financial situation or portfolio at your convenience. A copy of Lucas Capital Management, LLC's ADV Part II is always available upon request.*

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