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December 2018 Newsletter

What Happened?

- Despite the strong start to the year, 2018 ended up being the worst year for stocks since the financial crisis of 2008.

Index	December	YTD 2018
S&P 500	-9.2%	-6.2%
Dow Jones	-8.7%	-5.6%
NASDAQ	-9.5%	-3.9%
Russell 2000	-12.1%	-11.0%
EAFE	-4.9%	-13.8%
Emerging Markets	-3.0%	-15.0%
Aggregate Bonds	1.8%	0.1%
Gold	-1.5%	5.2%

Data from Morningstar as of 12/31/2018

- A multitude of issues were to blame for the ugly December, among them were:
    1. The Federal Reserve went ahead with another rate increase and the spread between the 2- and 10-year treasury bonds narrowed yet again.
    2. Continued murkiness around how the trade war in China will affect fourth quarter earnings lead some analysts to get more conservative on future earnings.
    3. Continued deadlock in Washington reached a head and the government shut down. Talks seem to have gone nowhere and we could be in for quite a long closure.

- We saw the reemergence of "safe haven" assets. As equity markets had their worst month in years, gold and bonds performed well, again reinforcing why we recommend maintaining a diversified portfolio.

What Did We Do?

- In October we cut our overweight positions in growth stocks and have held larger cash positions which has turned out to be a positive for overall returns. We continued with this strategy in December and in many cases earning a small yield while sitting in a money market fund has significantly outperformed equity markets.

- The list of companies and markets that are starting to look like a good value is ever increasing, however we need to see market sentiment turn before we feel comfortable buying in to some of those ideas.

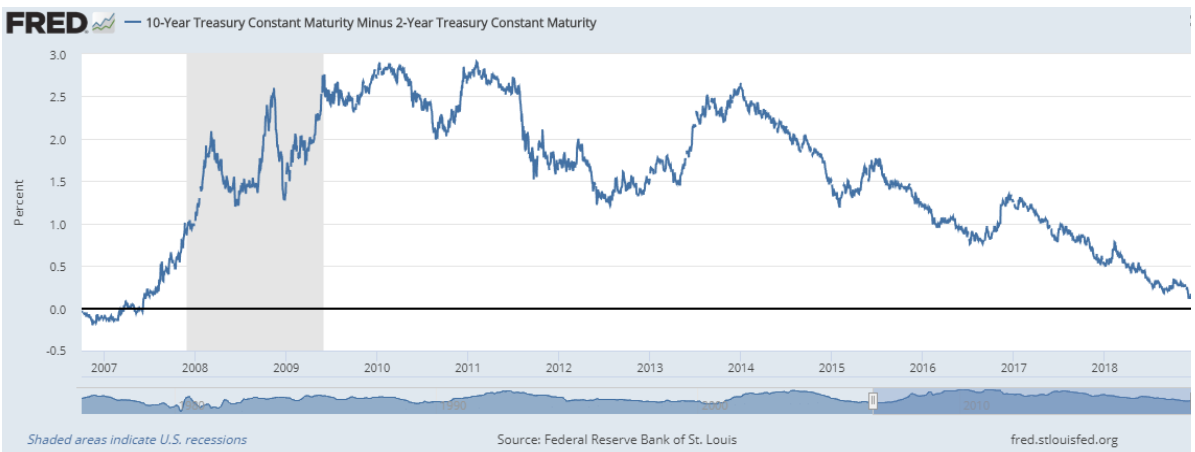
- In turbulent times like this it is always a good reminder to consult and/or update your financial plan in order to ensure that the strategy you have been following is still the best strategy for you.

What's Next?

- I can't recall a year since 2009 with more uncertainty about what will happen in the market than 2019. Depending on who you ask and which articles you read there are a plethora of reasons for the market to either return 15% or lose 15% this year. I do not think it is necessarily productive to make estimates for the entire year because of this uncertainty, so I look at it one month and one issue at a time.

- There may be continued volatility for the first couple of months as we continue to get more information about the big four uncertainties hanging over the market:

  1. Will the Federal Reserve hold off on further rate increases?
     - Our thought is that yes, we will potentially see the Fed slow the pace of hikes this year which could be a positive for markets. The big risk is if inflation begins to pick up and the Fed therefore feels the need to raise rates faster. If that happens we could see an inversion of the 2 year and 10 year treasury yields, something that has happened before every past recession and would therefore be a neagtive sign.



  2. Will the trade war with China begin to impact earnings?
     - Apple, typically seen as a bellwether for the economy, just announced a cut to their revenue guidance due to weaker demand in China. This has been an issue that the market may be underestimating. A slowdown in the world's second largest economy could potentially have big impact on the US economy as well.

  3. Will company earnings begin to slow?
     - One catalyst for a strong start to the year would be that markets became oversold in 2018 and if earnings continue at the same pace the market should rally. That being said, it seems more likely that we will see a slowing of earnings as much of the benefit from tax cuts has already been priced in and some firms have already said they are at peak earnings levels.

  4. Will we see some big political shake up from the eventual release of the Mueller report, a prolonged government shutdown, or just in general as we approach an election year?
     - This risk is hard to quantify but it regardless leads to uncertainty and markets hate uncertainty. There is a chance that sometime in the first quarter of 2019 it's announced that Mueller has released his final report. Depending on who you ask, the outcomes of this can range from totally clearing the president to the beginning of a constitutional crisis/potential impeachment. Although we do not have an official

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position on how this will affect markets, it could still be a big item and is therefore on our radar.

- 2019 will most likely be a year of continued volatility. At times like this it is very important that you ensure that you have a financial plan you understand and that you are working with an advisor that you know is engaged and communicative as volatile years is when financial advisors really earn our keep.

If you have any questions or would like to discuss how any of this could impact your portfolio, please contact Alex directly at Alex@AnfieldWealth.com.