



Forward Focus

January 2019



Yearly Market Review

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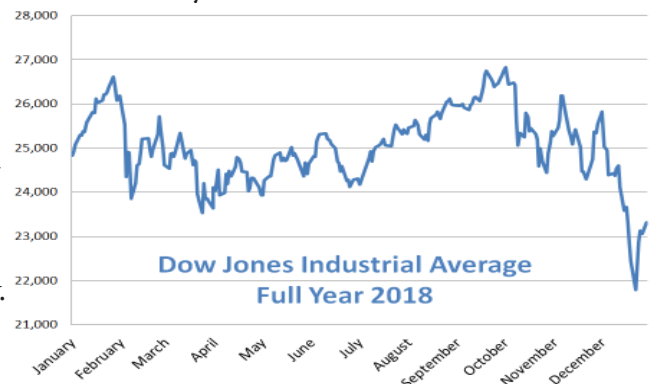
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International markets were worse, affected by a stronger U.S. dollar, slowing growth, trade tariffs, and political uncertainty. For the year, most major international averages posted negative double-digit returns.

The first three weeks of January 2018, the Dow Jones Industrial Average (Dow) gained 8%. Then it fell 12% over the next month, recovered 8% by the end of February, bounced around in a trading range from March to the end of July, staged a 6% rally from August through September, and then took investors on a wild rollercoaster ride in October and November, before falling 15% in the first three weeks of December. The day after Christmas, a single-day record 1,086 point gain sparked a Santa Claus rally into year-end, which lifted markets 6% from the Christmas Eve lows. Whew! What a ride. The chart below tells the visual story of the Dow in 2018.

The Dow and the S&P 500 index closed out the year with single-digit losses, while the Russell 2000 small-company index ended the year down by double-digits.



Eight of the eleven sectors posted negative returns last year. The best performing sectors last year were Healthcare (+6.3%) and Utilities (+4%). The worst performing sectors were Energy (-18%) and Materials (-14.9%).

Here is a summary list of events that occurred during the year: Dow hits 26,000 • U.S. Government shut-down • Jerome Powell becomes Federal Reserve Chairman • Dow drops 1,100 points - Feb 5th • Kentucky and Florida school shootings • Winter Olympics in South Korea • Facebook scandal • Tariffs and talks of trade wars • U.S. President Trump and North Korean leader Kim Jong-Un hold Singapore Summit • U.S. Withdrawals from Iran nuclear deal • Wedding of Prince Harry and Meghan Markle • 21st FIFA World Cup in Russia • Unemployment hits a 49-year low of 3.7% • Miraculous Thailand cave rescue • Flooding in Laos, India, Nigeria, Vietnam, Italy, North Korea, and the United States claim hundreds of lives • Apple becomes 1st company worth 1 trillion dollars • Mexico, Canada and the United States reach a new trade agreement • Senator John McCain dies • Hurricane Florence hits the east coast • Volcano eruptions and Hurricanes in Hawaii • Brett Kavanaugh nominated to the U.S. Supreme Court • Dow and S&P 500 reach all-time record highs • Longest bull market in U.S. history • Initial jobless claims lowest since 1960s • Fed raises rates 4 times in 2018 • Earthquakes and tsunami in Indonesia kill thousands • Hurricane Michael hits southeastern U.S. • U.S. midterm elections • Attorney General Jeff Sessions resigns • California devastating Camp fire and Woolsey fire • David's Bridal files for chapter 11 bankruptcy • France "Yellow Vest" protests • Yemen civil war continues • Former Trump lawyer Michael Cohen sentenced to prison • G20 summit in Buenos Aires • Former U.S. President George H. W. Bush dies at age 94 • Qatar withdrawing from OPEC after 60 years • Brexit vote delay • Pentagon withdraws troops from Syria • U.S. Defense Secretary Jim Mattis announces resignation • Partial Government Shutdown • Dow gains 1,086 points - Dec 26th • Oil ends at \$45.41/bbl • 10-Year Treasury at 2.68% •

Full Year 2018

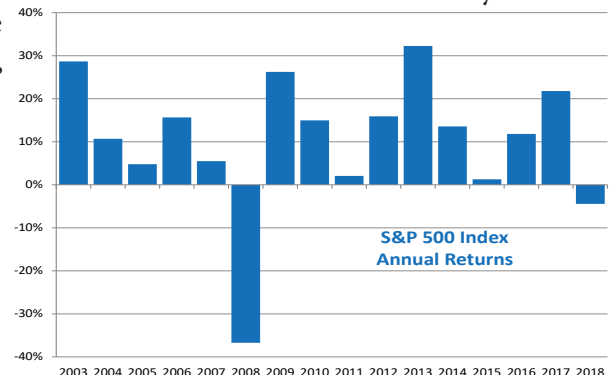
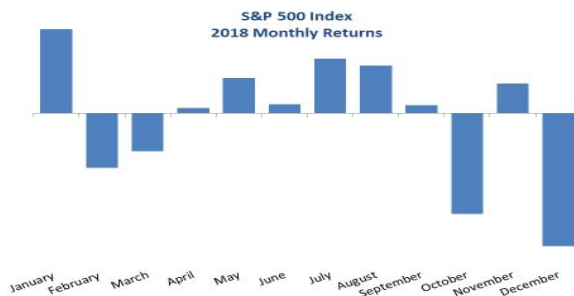
Dow Jones Industrial Average -5.6% • S&P 500 -6.2% • MSCI EAFE (International) -13.8%
Russell 2000 (Small Cap) -12.2% • MSCI EMI (Emerging) -15.3% • Barclays Capital Aggregate Bond 0.0%

Putting Markets in Perspective

Stock markets posted negative returns last year. News headlines read ‘Worst December since Great Depression’ and ‘Worst market for stocks in 10 years’. Scary to say the least. Was it really though? Are bread lines forming? Are layoffs imminent? Are your portfolios cratering? No, no and no. So, why the comparisons to 2008 and the Great Depression? Simple. Fear gets attention and helps sell ads. However, fear (emotion) should not drive decision making. Therefore, let me provide more perspective and hopefully help you put away the antacids.

The Dow and S&P 500 indices were down roughly 5-6% in 2018, ALL of which occurred in December. According to Bespoke Investment Group, December is historically the best month of the year with an average gain of 1.55% and it is positive 74% of the time, over the past 100 years. So the fact it was down so much did, in fact, technically make it the worst December since the Great Depression. However, I think a better headline would have been ‘A December to Remember Sale’ because after hitting a market low on Christmas Eve, the Dow Jones gained 5% (1,086 points) the day after Christmas and markets rallied into year-end.

Worst market in a decade? As you can see from the chart on the right, the S&P 500 has been positive 14 of the past 16 years! Yes, almost 90% of the time. Ten of the fourteen positive years (71% of the time) markets were up by more than 10%. So, even a negative return of only -0.001% would have garnered the headline of ‘Worst market for stocks in 10 years’. Seeing it visually, however, it doesn’t look so scary. The historical average is 1 out of every 4 years is down. After 9 straight years of solid gains a modest down year was to be expected. Thus, headlines can grab attention and sell ads, but seldom do they tell the full story.



Grow Your Portfolio Even in Down Markets

According to the Government Accountability Office (GAO) about 29% of households age 55 and older have no retirement savings. It is not just those over age 55. Around half of U.S. households have no retirement accounts at all! None. Of those that do, the median retirement account balance was only \$59,000, according to research by the Federal Reserve in 2013.

So, congratulations, you are better prepared than half of America! However, while having a winter coat makes you better prepared for the North Pole than someone in a swimsuit, that doesn’t mean you’ll survive for long. What matters is being prepared to succeed at the task ahead. It requires a little planning, time, discipline, and sacrifice.

In regards to investing, success requires savings. In 2019, we are encouraging our clients to increase their savings amounts. Whether it is to their 401k, Roth IRA, Traditional IRA, or taxable accounts. Contributing to your own retirement has many great benefits. Most company plans will match contributions, investments grow tax-deferred, and saving now, means more money later.

In 2019, the IRS is increasing the contribution limits for both Roth IRA’s and Traditional IRA’s to \$6,000 from \$5,500. If you are age 50 or older you can contribute an additional \$1,000 (thus \$7,000 total). This is a great way to save, have money available to invest when markets dip, and succeed in retirement.

The best way to accomplish this is to automate the process. We can set up a monthly direct deposit from your checking account to your investment account. You can set it for any day of the month and can easily change the amounts. Also, if you do not yet have an IRA, let’s start one. You are not alone in this. We are here. We can talk about it, answer questions, and handle all the paperwork for you. This is a new year, start it off with a win. Add ‘save for retirement’ to your new year’s resolution, automate it, and check it off your list. It is a lot easier than a resolution of ‘lose the extra pounds of holiday weight’. As with all goals, getting started is the hardest part. So here is a little incentive math: Investing \$6,000/year for 20 years at 7% equals over a quarter of a million dollars.