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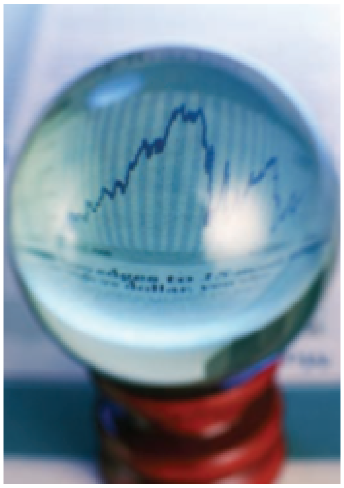
Investment Update

4th Quarter 2018



2018 has been an eventful year for financial markets. While the domestic economy remains strong, macro events dominated headlines. Uncertainty relating to trade with China, rising interest rates, and most recently, a partial shutdown of the Government has been among a litany of concerns. Throughout the year, these have caused heightened volatility with sharp moves and sudden reversals.

We take our commitment to you very seriously. We know that the capital your family has accumulated has come from great effort and often significant sacrifice. Given recent market movements, we want to share our thoughts and principles on market volatility.

Maintain perspective

We believe that investment in stocks is an investment in businesses that make up the overall economy. Recent Labor Department figures reported that unemployment is at a 49-year low. On the earnings front, during the most-recent quarter, 77% of S&P 500 companies reported earnings above consensus estimates[1]. While the torrid pace of earnings growth must slow in the future, there are few current signs of a major reversal in earnings or economic growth.

Political and macroeconomic events must also be put into perspective. One of the reasons given for the declines has been the possibility of a government shut-down over political budget wrangling. That possibility became a reality in the past few days. It is important to note that these closures are not full shutdowns. During the closure, essential government services continue. Neither are the shutdowns uncommon. Since 1980, the government has experienced a shutdown 15 times, including three this year alone.

During large market movements, the media tends to publish extreme and sometimes questionable information. In the past few days, headlines have declared, "Large Cap Worst Week Since 2008"and "Worst Christmas Eve Trading Day in History." We don't measure success by single days or single weeks. We have more-important things to attend to like helping people live comfortably through retirement and leave a lasting legacy. We measure success in decades not days. Including the recent unsettling fall, as of December 26, 2018 the S&P 500 is down roughly 6% for the calendar year[2]; certainly disappointing, but hardly the worst of all time.

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Knowledge of market history

While we are forward-looking in our approach to planning, it can be helpful to examine market cycles of the past. Over the past decades, a correction, which is defined as a decline of 10% or more from recent highs, has occurred roughly once a year. A bear market, which is a decline of 20% or more, comes on average about every six years. History has shown that bear markets are not permanent. The time it has taken equity markets to recover from the low and reach new highs has been, on average, 22 months.

History also shows that attempting to time the market by making allocation changes based on recent market direction can be very difficult. An examination of the 20 best market days and the 20 worst market days since 1979 shows why. Rather than being normally distributed over the years, the best and worst days tend to occur very close together. This shows that large moves can be followed by quick and dramatic moves in the other direction[3].

While investors are rightfully unsettled by the recent declines, part of that sensitivity may come from the uncommon absence of volatility in recent years. In 2017, a year of great returns for both domestic and international markets, the S&P 500 did not experience even one down month. So, it is possible that we are not entering a new, volatile world, but merely returning to a more normal world.

The power of allocation and advice

While the recent market declines are not unprecedented or even uncommon, we still take them seriously and are monitoring developments closely.

It has been said that, "Sound principles can get one through almost anything." We agree. Our process involves more than picking some investments and waiting to see what happens. You deserve better than that. We spend our time getting to know you and your goals. Portfolios are built and stress-tested using programs that measure success rates in various market environments. So, as unpleasant as down markets are, know that our process anticipates such declines and allocates accordingly. Put simply, we measure risk in advance of volatility, not in reaction to it.

The past few weeks have been disconcerting to even the most disciplined investors. It is difficult to see hard earned capital decline in value. We have seen market volatility many times before. This is when solid planning and communication are most important.

[1] From Standard & Poors – S&P 500 Index Earnings Report as of 12/20/2018. https://us.spindices.com/indices/equity/sp-500

[2] From Morningstar Direct as of 12/26/2018.

[3] From various sources including Morningstar Direct, JPMorgan Asset Management, Index Fund Advisors (ifa), and others.

If you have any questions or concerns, we are here

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