



Keyes & Associates, Inc  
 121 Spruce Ave  
 Fairbanks, AK 99709-4150  
 Phone 907 452-6393  
 AK Only Toll Free 800-478-6393  
 Fax 907 452-1600

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Dear Valued Client,

Investors were amply rewarded in 2019. Stocks turned in their best performance since 2013, and the gains were very broad. About 90% of S&P 500 stocks advanced for the year. Markets were buoyed by a strong economy, falling interest rates and solid employment. Progress was also made in trade talks, further pushing up returns. Bonds turned in solid returns as well, boosted by three interest-rate cuts by the Federal Reserve.

2018 was a different story. Despite a favorable economic climate, multiple pressures appeared, both real and imagined. There was fear that rising interest rates would choke off growth. On the international front, sabre rattling and tariffs threatened to derail trade. During the fourth quarter of 2018, markets tumbled almost 20% from recent highs even though losses for the year were modest.

This begs the question that if economic conditions were good in both 2018 and 2019, why was there such a great disparity in market returns for each year? One possible answer might be found in a classroom at New York's Columbia Business School in the early 1950s. A young student listened attentively to a lecture by a professor who said, "in the short run, the market is a voting machine, but in the long run it is a weighing machine." The professor was legendary investor Benjamin Graham, and the student was 21-year-old Warren Buffett.

This thought is as relevant today as it was almost seventy years ago. It means that in the short-term, prices of investments are like a popularity contest. Participants vote with their dollars, sometimes dashing in and out of the market and from one asset to another. Over longer periods, the noise and frantic reactions fade, and the true value of investments become clearer. This careful weighing of value is central to our view of patient, disciplined investing.

**Domestic Equities:** As the economy continued to strengthen in 2019, companies reported solid earnings. The Dow Jones Industrial Average jumped 6.7% for the fourth quarter and surged 25.3% for the year. The broader S&P 500 turned in a 9.1% return for the latest quarter and a whopping 31.5% for the year. Smaller stocks also had solid returns. The Russell 2500 rose 8.5% for the quarter and 27.8% for the year.

**International Equities:** 2019 was also a solid year for international stocks. While international stocks have had their own challenges—particularly the U.K.'s seemingly endless Brexit negotiations and political sparring—returns were strong. International equities were also buoyed by strong world economies and low interest rates in the U.S. Developed Markets posted an 8.2% gain for the quarter and sailed to a 22% gain for 2019.

**Fixed-Income:** Even the normally muted world of bonds joined the party in 2019. In July, the Fed signaled that it was reversing its policy of interest rate hikes and cut rates for the first time in a decade. The Fed then followed with cuts in both September and October. These moves rewarded both stock and bond investors.

The Barclays Aggregate Index, a measure of the overall bond market, rose 0.2% for the fourth quarter and advanced 8.7% for the year. Riskier high-yield bonds rose on diminished expectations for a recession. This index jumped 2.6% for the quarter and ran to a 14.3% gain for 2019. Municipal bonds also did well, edging up 0.7% for the quarter and advancing 7.5% for the year.

<b>% Return as of 12/31/2019</b>			
<b>Equity Indexes</b>	<b>4th Q</b>	<b>1 Yr</b>	<b>3 Yr</b>
S&P 500	9.1	31.5	15.3
Russell 2500	8.5	27.8	10.3
MSCI EAFE	8.2	22.0	9.6
Emerging Market	11.8	18.4	11.6
Wilshire REIT	-1.1	25.8	7.6
<b>Bond Indexes</b>			
TIPS	0.8	8.4	3.3
Aggregate	0.2	8.7	4.0
Government	-0.8	6.8	3.3
Mortgages	0.7	6.4	3.2
Investment Corporate	1.2	14.5	5.9
Long Corporate	1.3	23.9	8.8
Corporate High-Yield	2.6	14.3	6.4
Municipals	0.7	7.5	4.7
<b>Cash Equivalents</b>			
3-Month T-Bill	0.5	2.3	1.7
<b>Consumer Price Index</b>	0.6	2.0	2.1

It is important to note that the stellar returns of 2019 did not come without significant drama. Of course, there was the usual intrigue and threats of macroeconomic shocks. Several significant sell-offs roiled markets with swift and turbulent declines as the “voting machines” temporarily took over. The volatility of 2019 is not unique, of course. It’s a rather common part of investing.

As we enter 2020, the volatility could continue. Politics will likely be even more prominent, given the approaching presidential election. We can expect the voting machines to be at work both literally and figuratively. This is where planning and discipline will be vital.

While 2019 was a great year, we know that not every year will be like this one. Whatever the future brings, we will be here to help. Thank you for the confidence you have placed in us. Please call with any questions you may have.

Best Wishes for 2020,

Your Keyes & Associates Team,



Chris Keyes, CFP®



Scott Keyes, CRPC®



Bobby Weaver, MBA, CFP®

Source of data – The Investment Company Institute, Barclays Aggregate, Morningstar, Wall Street Journal, Bloomberg, Reuters, Dow Jones Newswires, American Funds, MSCI, S&P Index, The Federal Reserve. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Russell 2500 Index measures the performance of the 2,500 smallest companies (19% of total capitalization) in the Russell 3000 index. The S&P 500 index measures the performance of 500 stocks generally considered representative of the overall market. The Wilshire REIT Index is designed to offer a market-based index that is more reflective of real estate held by pension funds.

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