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Q4 2018 – Market Overview Newsletter

Economic Update

The fourth quarter of 2018 was the first large pullback we have seen in almost a decade. Declines like this can make it difficult to keep things in perspective. Of course, after the steady pace of 2017, 2018 felt like a roller coaster. Fluctuations in the market, however, are not unusual. The S&P 500 closed at an all-time high in mid-September after which it declined nearly 20%, ending 2018 at a loss of -4.38%. This was the first annual loss we have seen since 2008. Maintaining a long-term focus can help put bear markets into perspective. Since 1949 there have been nine periods of 20%-or-greater declines in the S&P 500, averaging -33%. While these cycles can be painful to endure, missing out on the bounce back from these periods could be even worse. The average bull market return of the S&P 500 since 1949 has been 263%.

Is this just a correction or the start of something bigger? Despite recent volatility, the U.S. economy has remained strong, and growth has been healthy. The current economic expansion, should it continue, is on course to become the longest in history. We don't see any reason why it can't or won't continue. Economic research shows that the length of an economic expansion has no correlation to the likelihood of a future recession. Economic expansions don't die of old age. Of course, there are issues that we are reminded of daily, but nothing that seems severe enough to cause a near term recession.

The ongoing trade disputes, a potential Brexit resolution and other political events may create another challenging year for international markets. For nearly a decade international markets have lagged the U.S. and it may seem like all is lost. We believe valuations for international stocks are generally more attractive than those here in the United States. Over the long-term, companies' fundamentals should drive stock returns and smart companies will try to find a way to profit regardless of the situation.

In the US unemployment has remained low and wages have been up. Historically, low unemployment has resulted in higher inflation, but the Federal Reserve has been slowly raising interest rates over the past year to help ward off inflation. The fed will continue to monitor the situation and raise rates accordingly. We don't anticipate as many rate increases in 2019, but time will tell.

It is likely that we will continue to see volatility and although volatility can be jarring, remember that it is part of how markets function. During times of market extremes, investors who can contain their emotions may be well served. Rather than taking rash action, we believe investors who stick with their investment strategy and maintain a diversified portfolio are prepared to weather market ups and downs. If anything in your life has changed, or if you would like to discuss your financial and investment plans please don't hesitate to give us a call. -LS

Tax Season and 2018 IRA Contributions

Tax season is around the corner. Keep your eyes peeled for mail containing the documents you will need for filing your return. These documents will be rolling out over the next couple of months.

It's not too late for eligible 2018 IRA and Roth IRA contributions. Don't forget, 2018 contributions can be made until 4/15/2019 (or until you file your 2018 taxes). The 2018 IRA contribution limit is $5,500 across your traditional and Roth IRA accounts (plus an additional $1,000 "catch up" for those over 50).

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For more market details, see the “IM&R Q4 2018 Market Review” in the commentaries page on our website at www.langdonshaw.com/commentaries

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These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. The information shown does not constitute investment advice, does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy. Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes. Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). The U.S. Treasury yield is the return on investment, expressed as a percentage, on the U.S. government’s debt obligations (bonds, notes and bills). The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. **Benchmark Definitions S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. **The Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. **The S&P Small Cap 600 Index** covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P Mid Cap 400** is a capitalization weighted index that measures the performance of the mid-range sector of the U.S. stock market. Morgan Stanley Capital International **(MSCI) EAFE Index** (Europe, Australasia and Far East) is an index created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by major MSCI indexes from Europe, Australia and Southeast Asia. **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index that is designed to measure equity market performance in emerging markets. It consists of indices in 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and Arab Emirates. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Investors cannot invest directly in an index. Inflation is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth. Hyperinflation, with prices rising at 100% a year or more, causes people to lose confidence in the currency and put their assets in hard assets like real estate or gold, which usually retain their value in inflationary times.

A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); although the National Bureau of Economic Research (NBER) does not necessarily need to see this occur to call a recession.