



# YOUR WEALTH COUNCIL

## Newsletter

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*Your financial peace of mind is our highest priority*

### 2018 Performance

- S&P 500 ETF (SPY): **-4.56%**
- EAFE International ETF (EFA): **-13.8%**
- Mid-Cap ETF (IJH): **-11.2%**
- Small-Cap ETF (IJR): **-8.5%**
- REIT ETF (USRT): **-4.6%**
- LT Bond Index ETF (TLT): **-1.6%**
- Gold ETF (GLD) : **-1.94%**
- Oil: **-23.6%**

### Fourth Quarter 2018 Performance

- S&P 500 ETF (SPY): **-13.8%**
- EAFE International ETF (EFA): **-12.7%**
- Mid-Cap ETF (IJH): **-16.6%**
- Small-Cap ETF (IJR): **-19.0%**
- REIT ETF (USRT): **-5.9%**
- LT Bond Index ETF (TLT): **+5.4%**
- Gold ETF (GLD): **+7.7%**
- Oil: **-37.4%**

### MARKET UPDATE FROM OUR DIRECTOR OF PORTFOLIO MANAGEMENT: NATHAN LOVELLE, CFA®

With the market in bear mode, we thought it prudent to reflect on what key points are most important when reflecting on the year that was and what we can expect for 2019.

#### 2018 in Review:

- The first negative year for the S&P 500 since 2008 (10 years)
- The worst December since the Great Depression (88 years)
- By one measure, 2018 was the worst year in 100 years. 90% of all asset types ended the year down, the worst year on record, according to the Wall Street Journal
  - In 2008, cash wasn't the best performing asset class, but it was easily the best performing major asset class in 2018
  - Diversification did not help with bonds, gold and real estate also down
- According to the Banyan Hill, after years where 60% or more of asset classes posted negative returns:
  - There have only been 8 such occurrences since 1900
  - 6 of the following years were up double digits
- According to CNBC, the average time it took to recover a 20% downturn in the market since 1927 is slightly over 2 years.

#### 2019 Outlook:

According to Raymond James® Market Research<sup>1</sup>:

- Bull Case (5% probability): S&P 500 3305: 31.8% gain from 2018 close
- Base Case (65% probability): S&P 500 2957: 18% gain from 2018 close
- Bear Case (30% probability): S&P 500 2415: 3.7% loss from 2018 close
- US/China Trade will be the #1 market influence
- US Equities remain range bound into mid-year
- Expect GDP growth of > 2%
- Inflation will remain low and interest rates will not run away to upside
- Low oil prices may provide boost to consumers
- Fed stays restrictive. Yield curve won't invert until possibly the end of '19
- Expects S&P 500 earnings to be \$169 (Forward P/E of 14.8 – not pricey)

According to Vanguard® Research<sup>2</sup>:

- No material risk of strong rises in core inflation
- Fed reaches terminal rate in summer of 2019 at 2.75-3.0% before halting
- Returns in global equity markets are likely to be 4.5 – 6.5%
- Return prospects improving in non-US developed markets





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## Questions to Help Guide Decisions Between You & Your Advisor:

### 1. If you are retired, has your lifestyle been impacted?

While your account has declined in value, has the income you can take from your portfolio changed? Can your portfolio withstand the annual withdrawals your advisor has estimated that you can take over time? Is a switch to a more income-oriented approach (greater interest and dividend income) more in tune with allowing you to have peace of mind? Are you in fear that the dividends and interest that you are living on are in peril? What is your overall stock allocation and how will it react if the market continues its downward trend? Historically, what would have happened if we took no action?

### 2. If you are still working, but nearing retirement, has the market decline delayed your retirement date? By how long?

Do you believe your longer term plan didn't include bear market returns during some years? Would you like your advisor to help you reflect on how quickly the market typically recovers after rapid declines? Is a shift toward a slightly more aggressive allocation in your retirement accounts warranted after this downturn? If you're ahead of your retirement projection, is this downturn a moment of reflection that aggression may need to be tempered?

### 3. If you are years away from retirement, do you think the market will be higher at some point in the distant future?

What level will the market be at when you retire in many years? Are there any stocks that have good outlooks that you really think look attractive after this downturn? Do you have any additional cash on the sidelines that may need to be put to work?

1. Gibbs, Michael, Joey Madere, Richard Sewell, 2018. *Portfolio Strategy*. St. Petersburg, FL: Raymond James & Associates.

2. Aliaga-Diaz, Roger, Harsheep Ahluwalia, Joseph Davis, Alexis Gray, Jonathan Lemco, Andrew J. Patterson, Qian Wang, Peter Westaway, 2018. *Vanguard economic and market outlook for 2019: Down but not out*. Valley Forge, Pa.: The Vanguard Group.

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