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Asset Management • Retirement, Tax and Estate Planning • Fee Only • No Commissions • Independent Advisor

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Here is our newsletter for the 1st Quarter of 2019

The Markets Update

The 4th quarter showed the value of holding some high-quality bonds and cash in your portfolio. All U.S. and foreign stock markets were hit hard. Natural Resource Stocks suffered the most with a loss of 25.1 % and commodities lost 18.5%. U.S. Intermediate-term bonds earned 1.6%, softening the blow some.

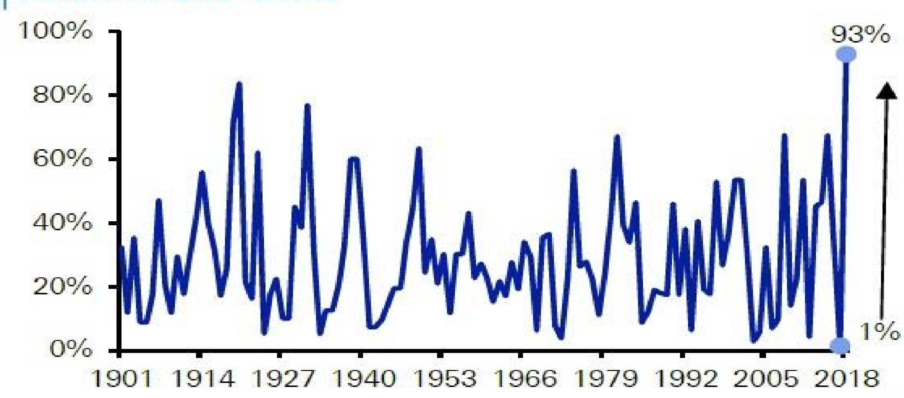
For all of 2018 all major asset classes (shown at right) had losses, except cash which earned 2.0%. U.S. small-cap, Foreign, and emerging market equities, natural resource stocks and commodities were the big losers. Just as important, the biggest gainer was U.S. intermediate-term bonds with a gain of only 1.6% for the year. The combination of rising interest rates impacting bonds and lower stock markets meant a poor year for all asset classes.

Asset Class Returns- Ending 12/31/18

Asset Class	4th Qtr 2018	One Year
US Large Cap Stock	-13.5	-4.4
US Small Cap Stock	-20.2	-11.0
Foreign -Developed Mkts Stock	-12.6	-13.8
Emerging Mkts Stock	-6.3	-14.6
US Intermediate-Term Bond	1.6	-0.1
Emerging Markets Local Bond	1.2	-8.2
High Yield Bond	-4.9	-3.2
Inflation-Protected Bond (TIPS)	-0.5	-1.4
Cash	0.6	2.0
US Real Estate	-6.5	-6.0
Natural Resource Stocks	-25.1	-24.2
Commodities	-18.5	-12.0

Having all asset class's loose value in any year (except cash) is highly unusual. In fact it has never happened since data has been tracked going back to 1901. While 93% of classes were negative last year, the number has not been even above 70% since the 1930s.

Figure 2: Percentage of Assets with a Negative Total Return in USD terms

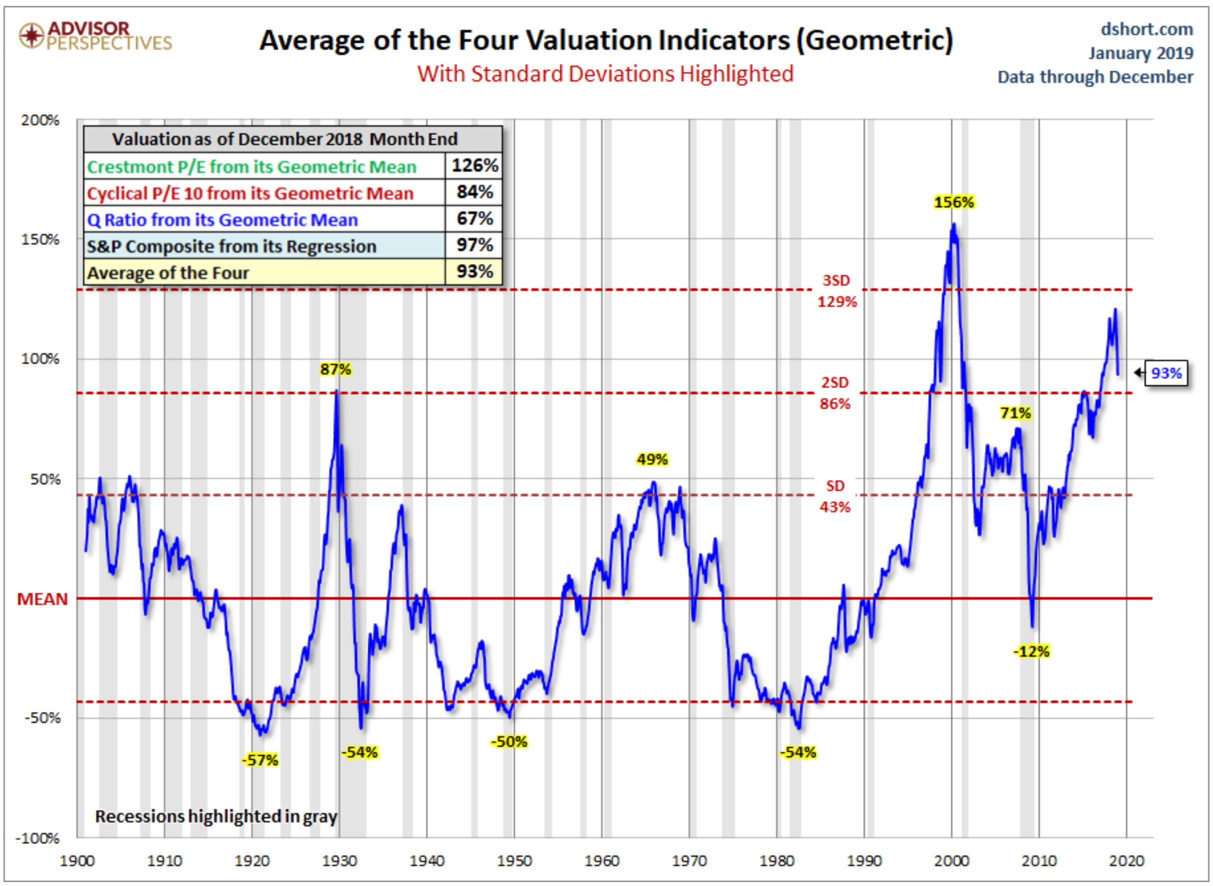


Source: Deutsche Bank, Bloomberg Finance LP, GFD. Note, returns YTD are until December 20

U.S. Stock Market Valuations

So where do stock market valuations stand after last year's losses? We have shown many stock market valuation charts over the years. We showed the one below in April of 2015 when it showed the U.S. market was 79% above the mean valuation. It shows the average of four measures of U.S. stock market valuations from four sources compiled by Advisor Perspectives. The average of the four valuations along with the standard deviations above and below the mean are shown. The latest average value of 93% is down from last month's 107%. So valuations are a little better but still very high.

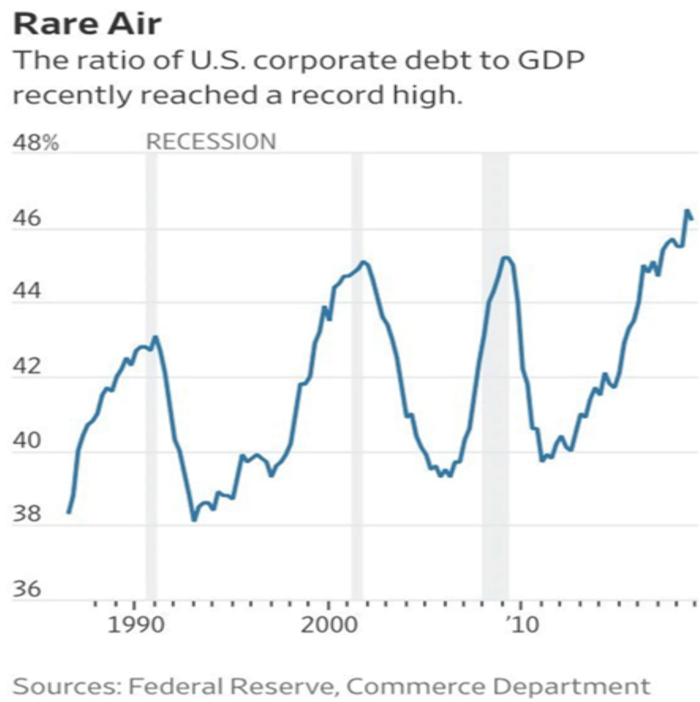
In light of this we will continue to emphasize downside protection, diversification and invest around the world where there are better values that here in the U.S. stock market.



Economic Outlook

If the current economic expansion last until this July it will become the longest economic expansion on record in the U.S. So it would be a good question to ask: when will it end? One year ago the markets were excited about the new tax cuts going into effect and the promise that the cuts would spur business and the economy to higher growth rates. While the economy is currently strong by most measures, growth is slowing down. The promise of more jobs has not materialized. During the last 22 months of the Obama administration there were an average of 216,000 new jobs every month: that number has decreased to 191,000 during the first 22 months of the Trump administration.

The tax cut was supposed to pay for itself with higher growth. Not so far. For the fiscal year ending September 2018 the annual deficit went up 18% from the previous year. For the first two months of this fiscal year (October and November) the deficit went up 50% from the same period a year earlier. The current projection is for the annual deficit to go up to $984 Billion this year, up 26% from the previous year.



Another factor to watch has been the increasing level of corporate debt taken on over the last several years. Encouraged by low interest rates, companies have been taking on debt, and in many cases, using the proceeds to buy back their own stock. From the chart above the peak in this debt has coincided with the last 3 recessions in 1990, 2001 and 2008.

Last and most importantly, the economy is facing headwinds from the actions of the Federal Reserve. For several years during and after the financial crisis in 2008 the Fed has provided stimulus to the economy by lowering interest rates and throwing cash into the economy using asset purchases. This is all being reversed slowly but surely. Similar measures are also being implemented in Europe. The Fed has rational reasons to raise interest rates and lower their balance sheet as they have a mandate to keep inflation and unemployment low. But their actions will slow down the economy.

Stock markets look ahead, anticipating when the economy will turn down in the judgement of market participants. On average stock markets peak about 9 months before a recession starts. Second, nobody knows when a recession has started until at least six months after the fact. So let's say the U.S. stock market hit a major top in September of last year. Using the average 9 months, a recession might start around June of this year. However, if the economy falls into recession, nobody will know about it until sometime in 2020. I can recall back in early 2008 there were few predicting we would fall into a recession, when in fact the Great Recession had already started in December of 2007.

So while the economy and leading indicators are not flashing red at this time, things could change quickly and this would impact stock and other markets.

Asset Protection Guarantee from TD Ameritrade
Most of our client investment portfolios are held at TD Ameritrade Institutional. Here is their Asset Protection Guarantee which states how they and you can protect your assets from theft.

The Asset Protection Guarantee

If you lose cash or securities from your account due to unauthorized activity, we'll reimburse you for the cash or shares of securities you lost. We're promising you this protection, which adds to the provisions that already govern your account, if unauthorized activity ever occurs and we determine it was through no fault of your own. Of course, unauthorized activity does not include actions or transactions undertaken by or at the request of you, your investment advisors or family members, or anyone else whom you have allowed access to your account or to your account information for any purpose, such as trading securities, writing checks or making withdrawals or transfers.

We promise this protection if you work with us in four ways:

1. Keep your personal identifying information and account information secure and confidential because sharing your UserID, password, PIN, account number or other standard means of authentication with other people means you authorize them to take action in your account.
2. Keep your contact information up-to-date with us, so that we can contact you in case of suspected fraud.
3. Review your account frequently and your statements promptly and report any suspicious or unauthorized activity to us immediately in accordance with your Client Agreement.
4. Take the actions we request if your account is ever compromised and cooperate with our investigation.

Thanks for reading and give us a call to talk about your financial situation.

Sincerely,

Stan Johnson
Comprehensive Financial Planning, LLC
Registered Investment Advisor
NAPFA Registered Financial Advisor