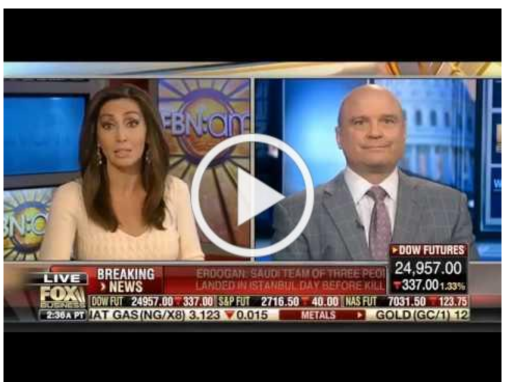
POTOMAC WEALTH ADVISORS, LLC

Here's To Your Wealth

Market Commentary

A confluence of events is changing market sentiment and sending global stock indexes in the red for the year. Events include fears of The Federal Reserve rapidly raising rates, the continuing trade rift with China, issues with Saudi Arabia, and concern that the economy's momentum us slowing. All these are causing volatility in the stock market. Wide swings seem to be a daily event. We discussed these points on FOX5 On The Hill this week.



Market Volatility Is Here: Put Your Helmet On!

Regarding interest rates, it's not the level of interest rates at this point that is a concern, but rather the speed at which rates have climbed. The rapid 40 basis point climb since early September was a bit of a shock to the markets. Chairman Powell's comments that we're not yet at a normal rate of interest rates also sent shivers through the market. Continued strong rhetoric could result in another hit to equities.

Other concerns can be found in Europe. European economic growth has slowed. There's ambiguity on Britain's exit from the EU, and most notably weakness in Italy and in their banking sector which could ultimately have ripple effects.

Finally, the impact of tariffs will be somewhat felt in the U.S. in the form of higher prices, but in China the impact on the overall economy is a concern. "Winning" the trade war could mean severe damage to overseas economies which at some point won't be good for U.S. investors.

Given these factors, it's not surprising that investment sentiment is

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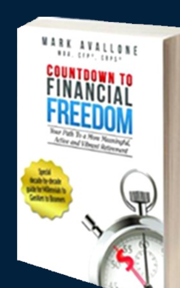

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The Washington Post as a Greater Washington DC Region Five Star Wealth Manager (2012, 2015, 2016, 2017, 2018) getting more negative. The ghosts of 2008 are ever present in the mind of investors, many of whom never got fully comfortable after the painful crash from ten years ago. Now, with the markets in line with historical valuations, investors are easily spooked and worry their precious gains will be eroded. There seems to be a reduction in conviction among investors and many are headed for the exits.

With the mid-term U.S. elections drawing near, volatility should be expected at least until the November 6th elections. Ultimately, however, the elections shouldn't significantly impact the market because no policy shifts will result. If the Democrats win the House, they will be powerless to advance their agenda. President Trump, who might face legislative roadblocks, can continue to roll back regulations.

If Congress is split we will see gridlock - and historically the markets enjoy gridlock. The one positive thing they could agree on is an infrastructure spending bill, but the severe polarization among the parties may prevent that. If, however, they can overcome their deep resentment towards each other the country - and the stock market - may benefit.

For the record we are still in a bull market although it's getting harder to believe given what is now a relatively weak 2018 stock market performance. Against this backdrop why would investors be optimistic? For starters, corporate balance sheets are in great shape, and corporate earnings growth, despite a few disappointments, is slated to continue. The consumer remains strong and the job market is robust. Despite a weak top line number in the September jobs report we saw strong upward revisions for both the July and August job numbers and we now have several consecutive months with year over year wage growth of just under 3%.

One thing to keep in mind is that the risk of recession is low. Recessions don't happen when there is economic growth, strong corporate earnings, and a strong labor market. Ask any employer who's looking for workers about how tight the job market is.

The recent declines may be another mini blip and not the end of the bull market. Corrections are a very healthy reminder to investors that Wall Street is not a one-way street, and these declines can create attractive entry points for new capital.

As far as interest rate worries, historically when the 10-year Treasury note is south of 4.5% the U.S. Stock Market has been in rally mode. While history doesn't always repeat itself, as long as any interest rate climb is measured, as opposed to rapid, we don't see the Fed and interest rates as an immediate obstacle.

Overall, for long-term investors our focus remains positive on the U.S. Stock Market albeit with more volatility. If you are a short-term

The Financial Times
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Private Wealth Magazine
as a member of their Inaugural All-Star Research Team (2012)

Washington Business Journal
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NABCAP
as one of the Top Wealth Managers in the Washington, DC Metropolitan Region (2012, 2013, 2014)

SmartCEO Magazine
Money Manager Award Recipient Finalist, Washington, D.C. Metropolitan Region (2015)

Consumers' Research Council of America
as one of America's Top Financial Planners (2012, 2013, 2014)

DC Magazine
as a Five Star Wealth Manager, Washington, D.C. Metropolitan Region (2012)

SmartCEO Magazine
Top Wealth Manager, Washington, D.C. Metropolitan Region (2012)

Financial Advisor Magazine
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investor you may want to rethink your strategy. But we don't see any recession until at least late 2019 as long as the Fed doesn't get too aggressive and mess things up. Given that caveat, the bull market, while weaker than it has been, should be able to continue.

Thank You From The Entire Potomac Wealth Advisors, LLC Team

Feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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