



QUARTERLY NEWSLETTER [Q4 2019]

Positives:

Stocks Ended 2019 With A Bang. During the fourth quarter, all three major US equity indices surged to multiple new record highs. The S&P 500 actually had just two losing weeks in 4Q, and posted 149 positive trading days in 2019, the 6th highest number in the past 80 years. The Nasdaq Composite, largely composed of big tech companies, had the year's top results with its strongest annual increase in six years.¹ Market gains were driven by a solid economy, dovish central bank policy and optimism for (finally) a US-China trade deal.

All Asset Classes Were Positive Last Year. Strong rallies were seen this year in everything from gold and silver (their best results since 2010) to bonds, real estate, commodities and (of course) stocks.¹ Investors were back in "risk-on" mode during 4Q, with high yield bonds well outperforming their investment grade counterparts, after lagging last quarter. Market sentiment was lifted by strong holiday season shopping, with record-setting online sales up almost 20% from last year.

Economy Still Chugging Along. Despite concerns that 2019 would see a slowing global economy, in the end the world kept churning forward. US GDP gained 2.3%, well below the 3-4% expected growth touted during the last presidential election, but enough to keep the country doing well. With unemployment at record lows, and inflation staying well hidden, few economists are forecasting a recession this year. The slow, but steady, growth rate actually has a silver lining as it makes it less likely for the economy to suffer a "boom and bust" cycle.

International Stocks Rebounded in 4Q. With Brexit, elections and structural issues causing concern about Europe, and tariffs threatening to slow Chinese economic growth, investors had been wary about international stocks earlier this year. After lagging well behind US markets, though, international markets strongly rebounded as those worry clouds seemed to clear in 4Q. In fact, emerging markets had the strongest quarter of all the major indices, although it was not quite enough to catch up as they still trailed for the full year.¹

Negatives:

Always Something To Worry About. While small company stocks posted decent performance in 2019, they lagged quite a bit behind large caps. For many observers, this indicates potential economic and market weakness because small companies provide the majority of jobs in the US. However, this same thing happened in 2018 and, as we saw, this did not slow the market's momentum last year. Also, defensive assets like bonds and gold had a very strong year, at the same time stocks hit new records, which is unusual and causing some concern.

Always Something To Worry About (Part 2). Interest rates fell last year, which often portends an economic slowdown, while US stocks posted big gains, usually a sign that investors are confident about continued strong economic conditions. This paradox is another one that some pundits are pointing to as a reason to be concerned about assuming that the economy and markets will continue to climb higher.

What We Are Doing For You:

Capturing Some Of 2019's Market Gains. After such a strong year of market gains, we are making adjustments to client portfolios to lock in some of these gains, especially from large growth investments. We are by no means negative about future stock market prospects, but feel it is a good time to be slightly more cautious. With market volatility expected to pick up as we progress through this election year, we are adding a bit more to defensive assets, including bonds and value stocks, where appropriate for your accounts.

On a personal note

Bernie Jody the kids and their significant others spent a week in La Quinta for the Holidays. The highlight of the week was hiking several days in Joshua Tree National Park. Of course, the extensive hiking allowed us to eat quite a lot of great food. Jody's son Tyler began a new job in San Diego as an EMT, and was thrilled to go on his first 911 call. Tyler moved to San Diego over the Thanksgiving holiday to be with his girlfriend, who teaches high school sports coaches how to include handicapped athletes on sports teams. Daughter Jenny returned to Oregon to begin her internship and quickly found herself in the cleanroom helping to assemble "Focused Ion Beam."



Damien Damien and his family enjoyed a wonderful holiday season with lots of family visiting from out of town. Fortunately, their kitchen remodel was finally completed in early November so they were able to host the holiday festivities at home for the first time in the new space. It was great having Natalie home from UCLA for a few weeks and they capped off the holiday break with a week of skiing with the kids in Tahoe.

Debbie For the holidays, Debbie and Dave enjoyed several Christmas celebrations with her folks and family at multiple local events in Manteca, Dublin and Danville. So much fun and so glad to not get on an airplane! Looking to the new year, Debbie just found out she won the lottery to be able to participate in the April Lake Sonoma 50 mile Ultra Marathon. (Hard to believe there are so many people that want to enter, that they have to draw names!) Now the training begins! She and Dave are going to ski Whistler the first week of March.

Zack Zack enjoyed his Holidays staying close to home with friends and family. It is always a fun time of the year for Zack because he gets to see catch up with his extended family. It is also a great time to be a 49er fan! Zack is following closely as the 49ers get closer and closer to the Super bowl!

*We appreciate your continued trust and confidence.
Do you have any questions or concerns? Please feel free to contact us any time.*

   
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S&P 500 - A capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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¹ The source for market statistics cited in this newsletter is the Cetera Investment Management Quarterly Vantage Point 4Q 2019 Recap.

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