



# EISENZIMMER

Financial Services, Inc.

To our Valued Clients;

December 2018

**Michael Livingston, CFP®**

The fourth quarter of 2018 has certainly tested our discipline as investors and advisors alike. Declines have moved most major stock and bond indexes into negative territory for the year. The declines have been similar in nature to those in February of this year.

Some of the reasoning for lower stock prices include interest rate concerns and Geopolitical risk. Regarding interest rates, markets have reacted to the policies of the Federal Reserve Bank and the dreaded inverted yield curve. (when short term rates are higher than long-term) Geopolitical risk include tariffs between US and China, Brexit, and the Division of the US house and Senate. All the above factors lead investors to have recessionary fears.

Tom, Angelo, and I acknowledge the contributing factors but see the above concerns as reasoning for short term correction versus a long-term decline. As a firm, our approach is more fundamental in nature.

We see many positive economic indicators. Some of these indicators include above average increases in GDP, Increase in consumer spending, high wage growth, low inflation. All the above point to a healthy economy. Many will ask why we have all the intraday volatility? (i.e. point swings of 500 points etc.)

Markets are driven by Technical and Fundamental components. Technical components like liquidity have caused many of the short-term market swings. Many investors like hedge funds and computerized trading algorithms have caused some exaggerated selling. (currently more selling than buying) The Fundamental investor is asking the question "is my portfolio yielding enough return to compensate for the risk I am taking". The fundamental investor always takes a long hard look at earnings.


Earning Growth in 2018 will likely end the year about 24%. This is very good and likely contributed to the positive returns of the first three quarters of the year. Moving forward earnings growth of US companies are projected to be in the 6-10% range. This is still very good, although not as hot as the prior quarters. Of the 500 companies in the Standard and Poor index 311 estimate increased or level earnings. With the recent downturn, Price to Earnings ratios have fallen to equal 20-year historical levels. Current trailing and forward PE's today are close to a multiple of 15 which indicates investors are being rewarded well above the risk-free return of 2.39%. (3-month US treasury)

In summary we believe our clients should stay the course. To quote longtime mutual fund manager Peter Lynch "The key to making money in stocks is not to get scared out of them".

As always if you would like to discuss or review your portfolio and financial plan, we are available.

Happy Holidays,

  
Thomas W. Eisenzimmer

  
Michael Livingston, Financial Planner

  
Angelo Mancini Jr.

Investment Advisors, a division of ProEquities, Inc., a Registered Investment Advisor

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4520 Cooper Road, Suite#201, Cincinnati, Ohio 45242-5687

(513) 984-9111 • FAX: (513) 984-9666

Website: [www.eisenzimmerfinancial.com](http://www.eisenzimmerfinancial.com)

E-mail: [michael@eisenzimmerfinancial.com](mailto:michael@eisenzimmerfinancial.com)

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