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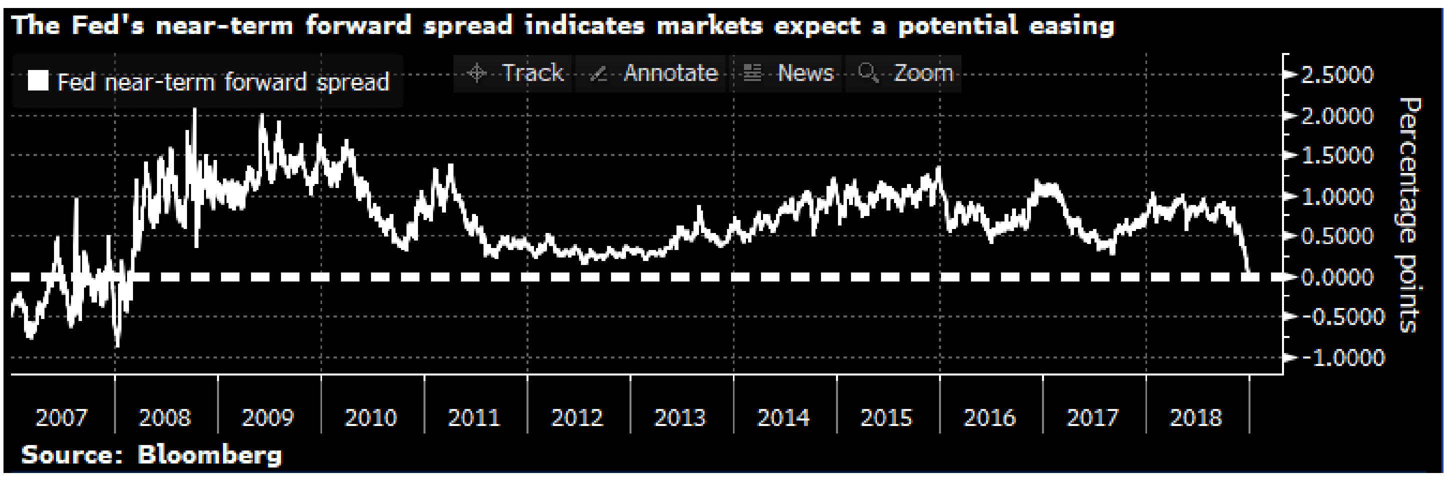
Investor Update

While December is typically one of the strongest months of the year, 2018 ended with one of the worst months in a decade and the worst December in 80 years. This month caused the market to end the year negative for the first time in a decade. This capped a year that went against most of the prognostications from the beginning of the year and surprised almost everyone. In many ways 2018 was the opposite of 2017 and maybe was the markets way of getting back to normal as 2017 was one of the least volatile on record.

There has been a lot of talk about trade wars and the Federal Reserve and how each is playing a role in the current market correction. While this is important to monitor, one thing to take note is that the market is actually pricing in no interest rate rises and a slight chance for an interest rate cut this year as shown below. This is important to watch because it means that a more dovish Fed will not necessarily translate into higher stock prices.



After the rout in December, Wall Street strategists have begun to cut their price targets for the S&P 500 for 2019. Interestingly in December of last year these strategists scrambled to increase their price targets. While there is a lot of inputs and research that goes into a price target, it is important to realize that recent stock price action is a very big factor in determining the target. While 2018 proved to be better to sell the increase in price target, maybe 2019 should be bought on price target decreases. Even with the decrease in target, expectations are for double digit returns for 2019.

Going forward we continue to believe that we are late in the economic cycle and that volatility will persist on both the upside and the downside. We are starting to see some weakness in the economic data. This should put the Federal Reserve on hold and also push negotiations with China and the United States to come to some type of agreement. As all of this information is digested, we expect this leads to a range bound market. While we had some recovery in share prices the last week of the year, the bottoming process usually has a re-test of the lows which we experienced on Christmas Eve. For now, this level should be viewed as the bottom of the range, with the top of the range being near the September highs. While there are a lot negative headlines, and in many ways this feels like something we have never seen before, it is important to go back and assess the data. We spent some time on a recent webinar that explains this data and our position in more detail. A replay can be viewed here (EverGuide Webinar). Additionally if you have any questions please contact me at 908-376-3041.

Sincerely,

Mark R. Painter, CFA