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The United States stock market (and many other stock markets) closed out the year down for 2018. The question I am often asked when this occurs is why?

So, what is going on?
Sometimes the explanation is simply we have entered a recession. Many companies' earnings are declining and therefore the equites markets may go down to reflect the lower earnings of most companies. However, that does not appear to be the case as of yet overall.

The U.S. economy is expected to grow in 2019, although some economists believe the growth may be less than it has been in 2017 and 2018.

So why has the stock market gone down, especially since October 2018? No one is 100% sure, but some combination of the following reasons may have impacted the stock market:

(1) Markets do tend to go up and down, especially in the short term. After the long run up since 2008, the markets may be down as some people take profits.
(2) Some people are pulling out of the market before corporate earnings decrease because they believe a recession will occur earlier than the 2020-2021 time frame that many economists are expecting.
(3) Certain sectors of the market may have become overpriced and needed to pull back to more realistic levels, whereas other parts of the market may not be not overpriced.
(4) Momentum investors tend to invest more as the markets keep rising, but when equity prices start decreasing as they pull out more and more; this causes increased volatility on the up side and the downside (but feels worse on the downside). Computerized trading and algorithms cause this trend to be accentuated as more and more trading is done by computers and in index funds and index ETFs.
(5) People are worried about uncertainty due to the U.S./China developing trade issues and/or Brexit. This could cause people to become pessimistic and want to sell equities even if the economy keeps growing. Also concerns that Europe, China and the Emerging markets may not be growing may lead to more declines in overseas markets.
(6) The U.S. Federal Reserve (Fed) has been raising interest rates over the last two years and many are worried that rates may be increasing too fast and could result in a recession. Also, they are selling assets they bought (primary U.S. Government Securities) in Quantitative Easing (QE). This may be affecting the markets.
(7) Since the Fed is raising interest rates, people are finally able to make some return in money markets and CDs, so money is moving out of the stock market.
(8) The current U.S. political situation and government shutdown has investors nervous.

My guess (and it is a guess) is that all of these reasons are affecting the stock market and have caused some of the volatility.

However, please remember that most investment markets (including equities, bonds, real estate, commodities, etc.) tend to have ups and downs. Many financial planners believe the keys to successful investing are to focus on the long-term performance of investments, use asset allocation to diversify your investments, have an adequate emergency fund, and match your investments to the timing of your investment goals (short term goals are paired with assets that may be more conservative but may have more modest long-term growth rates).

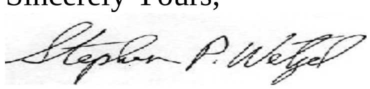
The overall market and the S&P 500 Index Price Earnings ratios appear to be fluctuating in the mid-range between 10 and 20, unlike the period in 2000 and 2008 in which the overall market PE ratios were above 20. The economy is continuing to grow and the Fed has recently suggested that the pace of interest rate increases may not be as fast. Certain segments of the market may still be overpriced, but many parts of the market do not appear overpriced at this point.

The recent positive U.S. new jobs report, moderating inflation, continued low unemployment, Fed Chairman Powell's statements, and potential U.S./China trade talks progress may be counter-balancing the eight reasons I previously mentioned.

Always feel free to give us a call if you would like to discuss any concerns you may have about the recent volatility. We will continue as always to reach out when we see anything that specifically needs to be changed in your portfolio or market or economic conditions cause us to reexamine your portfolio.

All of us at Prometheus Capital Management Corp. wish you and Happy and Healthy 2019.

Sincerely Yours,



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Sources: Wall Street Journal, The Economist, Charles Schwab News, various general financial publications and news reports.