



RGB Perspectives

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The stock market is in a free fall. The S&P 500 Composite Index has lost -12.45% during the month of December (through last Friday) and is down -9.6% year-to-date. As you can see by this chart, the S&P 500 has given back a good portion of its gains from the last two years.

Description	December Decline	Peak Date	% Decline from peak
S&P 500 Composite Index	-12.5%	9/20/2018	-17.5%
S&P 400 Index	-14.2%	8/29/2018	-21.4%
Russell 2000 Index	-15.7%	8/31/2018	-25.8%
Nasdaq Composite Index	-13.6%	8/29/2018	-21.9%
Emerging Markets ETF (EEM)	-4.8%	1/26/2018	-24.4%
S&P World ex-US ETF (SPDW)	-7.6%	1/26/2018	-21.3%

The December selling has been across the board with many of the major US indices experiencing significant declines. Interestingly, the recent (December) selling has been focused in the US. International markets, as represented by the S&P World excluding the US ETF (SPDW) and Emerging Markets ETF (EEM), have outperformed the US markets on a relative basis this month. However, all the indices/ETFs shown are in or near bear market territory (defined as a 20% decline from a previous peak).

The market environment is downright ugly. There are many factors influencing the markets including an overly aggressive Federal Reserve that is raising rates and decreasing the size of the Federal balance sheet, ongoing trade conflict between the US and China, and significant dysfunction in Washington D.C. including a partial government shutdown. It is not clear at this time if one of these is the primary driver behind the steep sell off or if it is something else that is less apparent at this time. Regardless of the reason, the market is in a steep decline with no indication of a bottom forming anytime soon.

The recent volatility caps off a year that has been extremely challenging with respect to managing risk. The low volatility markets that we experienced in 2017 were replaced with extremely volatile markets in 2018. The RGB Capital Group strategies experienced some of this volatility but less than that of the market. While there is no perfect investment strategy, risk management remains critical to our long-term success and I remain focused on limiting our participation in the protracted declines in the market. As we head into the end of the year, the RGB Capital Group strategies have no equity exposure and some limited exposure to bond/income funds that continue to provide some limited upside potential.

I suspect that we will see a continuation of the recent volatility into the first part of 2019. However, the good news is great buying opportunities generally follow steep declines. In fact, I am tracking several developing opportunities that appear to be setting up to provide the potential for great low volatility returns once the market bottoms. I don't know when that bottom will happen but I continue to watch for clues so that we can take advantage of this budding opportunity.

I wish everyone a Merry Christmas and a Happy New Year. I will be travelling with my family between Christmas and the New Year but will continue to follow the markets as I always do. Given my travel plans, this will be the last RGB Perspectives for 2018. The next issue will be published on January 7, 2019.

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