STRAIGHT TALK

4th Quarter 2018

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Market Returns

Domestic Large
S&P 500
-4.38%

Domestic Small
Russell 2000
-11.01%

Intl Developed
MSCI EAFE
-13.79%

Emerging Markets
MSCI EM
-14.58%

Fixed Income
BBgBarc US
Aggregate Bond
0.01%

**Market data is from Morningstar and is through 12/31/18. All returns are with dividends reinvested.*

The cautionary tale we laid out in our last quarterly letter came to fruition during the fourth quarter, making 2018 the toughest year for investing since 2008. All hope is not lost though, we see better days ahead for markets. The tug of war between bulls and bears continues without any clear cut advantage for one side over the other. On the one hand there has been a measurable slowdown in global economic activity, which heightens the threat of recession both globally and here in the US. On the other hand, many economic indicators remain fairly solid, and markets have started the new year as if investors are expecting better news.

Last year saw the return of volatility after seeing none during 2017. As a result of various macro factors we had negative returns across equities, with domestic faring better than international markets. Also, while bonds were down for most of the year they managed to rally during the fourth quarter and end the year flat. In some respects this could be similar to the slowdown we experienced in 2015 and if all goes well we should see a similar rebound to what we saw in 2016.

Much of the outlook for markets this year hinges on a few key issues, the biggest being what happens with the US and Chinese trade talks. As of now it looks like things are heading in the right direction, and both sides understand the need for a positive outcome to provide some stability for markets and their economies. The positive tone has certainly been a key contributor to the gains we've seen thus far in January. Two other near term issues could impact markets in the first quarter. The first is the ongoing government shutdown. The longer this lingers the bigger negative impact it's going to have on the economy. The second is the Brexit deal, which seems to have stalled in the UK parliament and has left open any number of possible outcomes. It's entirely possible that there will be a delay or second referendum. For now the March 29th deadline remains in place and we'll be watching closely as any deal or no deal, will impact the European economy and could have spillover effects globally.

We're thankful that the strong start to this year has erased some of the losses from last year, but we aren't advocating for excessive risk taking. There are a number of uncertainties, which ideally will be worked out during this first quarter. Staying diversified and maintaining appropriate risk levels is especially important right now. We are cautiously optimistic that things will get directionally better as we move through the quarter, and this rally will be sustained. As always thank you for your trust, we hope you have a wonderful year, and please don't hesitate to contact us if you have any questions.

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