



## QUARTERLY MARKET COMMENT Fourth Quarter 2018

After a mild, almost yawning 3<sup>rd</sup> quarter, many economists and money managers cautioned the 4<sup>th</sup> quarter was going to be volatile and boy was it ever! The one thing we do know is that several sectors of the market were greatly over-valued as we entered the last quarter of 2018. Given a growing list of uncertainties, rising anxieties and declining confidence, the markets made a strong statement. For the 4<sup>th</sup> quarter, the domestic stock market was down 14% to 21%, international markets lost 8% to 14%, natural resources experienced an 18% decline (energy was down 34%) and real estate was also down in the range of 6% to 7%. December was especially negative with the S&P 500 posting its worst performance (-9.18%) since 1931(-14.53%). Making a move in this type of market environment is like trying to catch a falling knife. Ironically, the week before Christmas the U.S. market experienced its worst return since the financial crisis and on December 26<sup>th</sup> the U.S. markets had its best one day return since the financial crisis. There were some bright spots that actually had positive rates of return for the quarter. Gold was up 8% and fixed income was up 1% to 4%. 2018 started out strong with the 2017 Tax Cuts and Jobs Act for individuals and corporations. January had one of the best returns on record for the U.S. stock markets and small caps were leading the charge. We got our long overdue correction and then the U.S. markets appeared to resume their upward trend. But as the dollar began to strengthen (impacting foreign securities, and commodities in a negative way), and concerns began to grow, the outcome was a disappointing year of negative returns in all areas but a few.

It is only natural to question, with an economic expansion already long in the tooth, if a recession is on the horizon. The silver lining, if we can find one last quarter, is that the market's sharp downward movement may have helped to push this expansion out a bit farther than was previously thought. By all indications, the economy is strong, but slowing. Instead of going 110 miles an hour as we did in 2018, 2019 may feel more like 55 miles an hour. This is typically not the backdrop of an economy heading into a recession. Fundamentals drive the economy, not political noise and these indicators can't turn on a dime. However, the increasing weight of uncertainties and anxiety can have an eroding effect. So as we work through this list of trade issues between U.S. and China, the impact of tariffs, increased cost of materials and labor, rising interest rate concerns, a possible global economic slowdown, geopolitical issues, and some unknowns at this point we will be mindful of the impact this is having on the markets moving into 2019.

Our portfolios are broadly diversified and in the long-run, research has demonstrated this strategy enhances performance and reduces risk. In the short run a diversified portfolio can under-perform in a narrow market. Given the wild swings in the markets, it takes patience and resilience to weather the turbulent times. Those with a long-term view are rewarded for their time in the markets. Please let us know if you have any questions or concerns. We appreciate the opportunity to work with you and we thank you for allowing us to help guide you through your financial life.

Although the information has been obtained from sources believed to be reliable, the information should be relied upon only when coordinated with individual professional advice. Past performance is not a guarantee of future results. Material discussed is meant for general illustration and/or informational purposes only, and it is not to be construed as tax, legal or specific investment advice.

Asset Index Category	YTD 4Q 2018 %	YTD 2018 %	2-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	-13.97	-6.24	5.82	10.75
S&P 400 Index-Mid-size Companies	-17.65	-12.50	0.07	11.94
Russell 2000 Index-Sm Companies	-20.51	-12.18	-0.32	10.44
Natural Resource Funds	-17.86	-19.01	-2.67	5.88
Gold	8.29	-1.15	5.15	4.01
US Real Estate Funds	-7.19	-5.97	0.08	11.50
Global Real Estate Funds	-6.26	-7.11	3.32	9.05
MSCI EAFE-Developed International	-12.86	-16.14	1.06	3.35
MSCI EM Index-Emerging Markets	-7.85	-16.64	5.83	5.47
Barclays U.S. Aggregate Bond Index	1.64	0.01	1.76	3.48
Long U.S. Government Bond Index	4.10	-0.74	2.72	3.76
Emerging Market Bond Index	-0.68	-6.85	1.83	5.91

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