Be Prepared

By Bob Deitrick, CEO
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I grew up as a Boy Scout and earned the rank of Eagle by the age of 16. One of the foremost lessons I learned in scouting was the concept of planning and being prepared for any potential situation - whether it be pleasant or perilous in nature. Life is challenging, at best, and we have all been challenged by the news cycle of 2018. Life has its highs and lows - times of celebration and times of great pain as well. Being prepared for these times can make difficult times easier to manage.

Having said that, the markets were peppered with volatility last quarter, as the news cycle overwhelmed a market which hit all-time highs in August and October respectively. In fact, last month was the worst December since the Great Depression, and investors will be feeling that as they open statements from the 4th quarter. Keep in mind that we went from the highs of last year on October 3rd to the lowest point of the year on Christmas Eve. We realize that these growing pains in the market are uncomfortable for our clients and Steven and I are very sensitive to that fact. However, we know that substantial rewards exist for the patient and sagacious investor.

2018 was squandered, in our view. What could have been a solid year fueled by the 2017 tax cuts was erased as an over-hawkish Fed, media fear mongering, and political mismanagement chipped away at investor confidence and induced immense market swings in the 4th quarter.

One of our core beliefs at PFP is that short-term market movement is not a cause for panic. Investors only lock in permanent losses when they allow themselves to get emotional and caught up in the mob mentality of the market. As a fan of the movie "Wall Street", there is a great line when the student, Bud Fox played by Charlie Sheen, provides his mentor and antagonist Gordon Gekko, played by Michael Douglas, a teaching moment when he says:

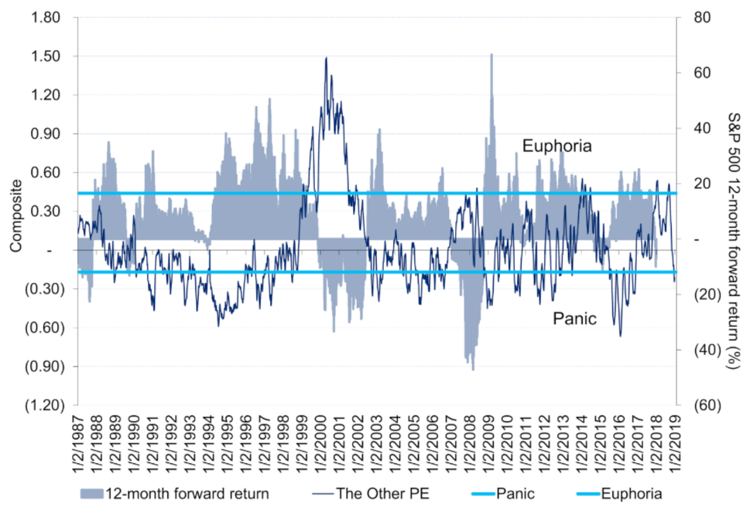
"Don't get emotional about stock Gordon – don't…"

I realize this is a bit hyperbolic coming from a movie from 32 years ago, but that line has always resonated with me - because it is true. When others rush to sell, they achieve a permanent loss. Because our investment strategy is long-term, market volatility over time, remains painful but inconsequential. Amid the Great Recession, when many lost their cool, we saw an opportunity to buy. The bull market since then has run about ten years now, during several of which we had beaten many Wall Street investment firms' returns, as Adam Hartung of Forbes pointed out not long ago. We at PFP don't get caught up in the irrationality of the market. This formula, over time, has a proven record of success.

This is not a reason to part with an historically proven approach.

This is an opportunity to show fortitude and to even double-down on the opportunity to buy good companies that have been oversold that are now undervalued.

Last week, Citigroup's Panic-Euphoria model hit alarming levels after the massive drop in stock prices last month. Stock-market investors entered panic mode after the wild ride to end 2018, meaning it might be a good time to buy equities. This indicates a high probability of making money (with average returns upward of 18% looking out 12 months).



The model, which considers factors as newsletter sentiment, margin debt and options activity — has had a good track record of predicting pullbacks and surges. It reached "euphoria" levels in 1999 before the dotcom bubble burst in 2000. It also broke into "panic" levels back in 2016 before the big post-election rally. The model also hit euphoria levels to end 2017.

We believe that this cycle may re-test the lows before attaining solid ground. We do not foresee a bear market on the near-term horizon, and a little good news like that of last Friday from the Fed and the jobs report goes a long way toward getting us back to normality. Today, headlines continue to weigh on the market. When fundamentals and earnings rule, as they will again, the market will improve. The prudent action today is <u>to stay the course.</u> <u>Please be prepared to not overreact to your statements when they are opened this week</u>. This is a retracement and we encourage you to brave the headwinds. <u>This too shall pass</u>... Please call us to schedule your next appointment.

We wish you and your family a Happy and Joyous New Year!