What a Difference 90 Days Makes…

By Bob Deitrick, ChFC, CEO
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Uncertainty can make the most experienced investors and professionals worry. It would be disingenuous if I were to tell you that Steven and I enjoyed our last Christmas Holiday, because we really didn't. Last quarters' market correction, created by the news cycle and the Fed and the Trade War, was stressful. We genuinely empathize with what you may have been going through. ***However, we believed three months ago, as we have confidence in today, that the market and economy, are indeed, fundamentally sound.*** *The macroeconomic indicators have slowed due to the trade war, but the fundamentals are solid. Unemployment claims, a leading indicator, were an extremely low* ***211K*** last week implying *the job market in the United States remains robust. GDP results for the 4th quarter came in at a modest 2.2%.*

Today, April Fool's Day, the market didn't hoodwink us by closing at the highs for the year! The Dow closed above 26K and the S&P closed +1.12% at 2867. The NASDAQ gained +1.29% and surpassed 7,828 today. As of April, the 1st - we are at the all-time highs for the New Year.

Last Friday's gains in the market added to a very strong performance for Q1, 2019. The S&P 500 surged 13.1% for the quarter, its biggest quarterly gain since the 3rd quarter of 2009 and it was the best first quarter of any year going back 21 years. The Dow climbed 11.2% last quarter — its best start since 2013, and the Nasdaq had its biggest quarterly gain since 2012 - rising 16.5%. Not too shabby a way to start 2019.

To start the 2nd quarter, we will be watching for you closely some key macro-data points this week including: ***Today we saw retail sales for February, Manufacturing PMI and ISM Manufacturing which were good, Tuesday: Construction spending, Business inventories and Durable goods, Wednesday: ADP's payroll arrive, Services PMI and ISM nonmanufacturing. Jobless claims on Thursday morning and then we culminate the first week of April with the important March employment report on Friday.***

The jobs number is key in our view. The February report was weak showing a tenth of the job creation many had anticipated but we suspect that was an outlier... That number may be the most important number coming out this week... We suspect about 200,000 jobs were added in March and if that is correct, we could have a solid month of April. Certainly, today was a great start. Of course, earnings will begin to come out next week which will be key also.

Given the good news of the 1st quarter, to the extent you are still having any doubts… Here are five strategies Steven and I recommend for you in order to create some perspective:

1. ***Remember the Big Picture***

The market has experienced mega-corrections or a drop of 20% ~ every 3.5 years **-** *based on Dow Jones Industrial Average going back to 1896.*

Having this historical context should strengthen your resolve to remain calm and stay invested which is the key to long-term success in the market. Pulling out at a high point, then buying *back at a lower one is almost impossible to do with any degree of frequency. Market timing simply doesn't work.*

2. __Avoid Sudden Movements__

A survey by the research firm DALBAR determined that over the past 20 years ending in 2017, the average investor without an advisor saw stock market returns that trailed the broader market by 2% each year, as measured by the S&P 500. Put another way, while the market gained 7.2% annually the average solo-investor realized a 5.3% yearly gain. Much of this difference is attributed to the fact that market timers and those who invest solo tend to sell near the bottom of the market but were still on the sidelines as the market improved. Market turnarounds often happen suddenly and unpredictably as this one did. Being out of the market when it bounces back can entail missing out on significant returns.

3. __Don't Be a Member of the Herd__

Some investors have a propensity to jump on the market bandwagon as indices are peaking. While investing during a downturn may go against your intuition, think of it like buying your stock or bond at Costco – at wholesale. ***__As markets become less emotionally driven, stocks and bonds generally return to a price closer to their mean, benefiting those who "buy low."__*** *While regular investing doesn't ensure you'll make money, staying invested through market fluctuations and buying additional shares at lower prices when the opportunity presents itself can increase your probability toward success.*

4. __Keep Your Emotions in Check.__

It's no surprise that our mood drops as the market does. __This is why I decided the Friday before our annual Christmas Party at Eddie's to have an open bar and to do away with the coupon notion as I knew everyone was unhappy - at that moment in time__. ***__Steven and I recognized, and we want you to understand as well that market corrections are a reality and they are actually healthy for the market. Having said that, we know it doesn't make them any easier or more enjoyable.__*** However, *negative feelings can drive poor decisions that aren't in your best interest. It's important to understand the power emotion can exert over our investment choices. Knowing that humans are prone to making poor decisions when driven by emotion can help prevent us from engaging in this type of activity.*

__Our advice is to monitor your investments with us on a regular basis, strive to keep calm and remain invested during these challenging times.__

Having said that, we are not suggesting we will not implement defensive strategies once the time calls for them because we will. However, we do not see that time on the horizon yet.

5. __Stay focused on Your Long-Term Game Plan.__ *Tuning out the news is tough - especially over the past 2 years when there has been so much of it but fixating on daily market returns can lead to impetuous decisions that may impede investment success. It also may drive you bonkers as well.* ***To curb the emotional impact of market volatility, we recommend making a point to review the value of your investments at regular intervals – like monthly or***

***when you receive your quarterly statements**. Focusing on the long-term will make you happier and less apt to making imprudent decisions due to daily market swings.*

December was driven by tax selling, algorithm trading and panic on the headlines. We saw a sweet comeback in the 1st quarter, but the economy is not strong enough to drive a 12% return if things don't change. ***China…*** *There is upside to this market to carry us through 2019 if the China situation is resolved. The world's two largest economies have imposed tariffs on billions of dollars of one another's goods since last February, battering financial markets in 2018 and souring consumer sentiment.* ***We have repeated this often. If a trade deal with China gets resolved, it could be just the catalyst we need. If not, a global recession may ensue next year.***

I found the chart below when I was doing some reading over my recent vacation. It illustrates how the market has performed, after mid-term election cycles going back to 1946, and the numbers are impressive. ***<u>Over these 18 cycles, the market has always appreciated, after a mid-term election year - with a mean return of 14.5%. There is no guarantee, obviously, but this is an impressive set of facts.</u>***

STOCKS HAVE DONE WELL AFTER MIDTERM ELECTIONS

		Result of Midterm Election			
Date of Midterm Election	President	Senate	House	Congress Makeup	S&P 500 Index Return 1 Year Later
11/05/46	Harry Truman	Democratic	Democratic	Democratic	0.1%
11/07/50	Harry Truman	Democratic	Democratic	Democratic	16.2%
11/02/54	Dwight D. Eisenhower	Republican	Republican	Republican	33.2%
11/04/58	Dwight D. Eisenhower	Democratic	Democratic	Democratic	11.1%
11/06/62	John F. Kennedy	Democratic	Democratic	Democratic	24.8%
11/08/66	Lyndon B. Johnson	Democratic	Democratic	Democratic	12.9%
11/03/70	Richard Nixon	Democratic	Democratic	Democratic	12.7%
11/05/74	Gerald Ford	Democratic	Democratic	Democratic	18.7%
11/07/78	Jimmy Carter	Democratic	Democratic	Democratic	6.4%
11/02/82	Ronald Reagan	Republican	Democratic	Split	19.9%
11/04/86	Ronald Reagan	Democratic	Democratic	Democratic	1.1%
11/06/90	George H.W. Bush	Democratic	Democratic	Democratic	25.1%
11/08/94	Bill Clinton	Republican	Republican	Republican	27.1%
11/03/98	Bill Clinton	Republican	Republican	Republican	22.0%
11/05/02	George W. Bush	Republican	Republican	Republican	14.9%
11/07/06	George W. Bush	Democratic	Democratic	Democratic	6.7%
11/02/10	Barack Obama	Democratic	Republican	Split	3.7%
11/04/14	Barack Obama	Republican	Republican	Republican	4.5%
11/06/18	Donald Trump	Republican	Democratic	Split	?
				Average	14.5%
				Median	13.9%
				Count	18
				% Higher	18

Source: LPL Research, Bloomberg 03/11/19

We encourage you to call us with any questions with respect to this newsletter, and if you have not been in for a review of late, we encourage you to call for your next strategic planning session. ***We want to wish those of you who celebrate the upcoming holidays - a Happy Easter and a Happy Passover as well. Our offices, as well as the stock and bond markets will be closed on Good Friday, April 19th.*** *We have some important announcements and seminars coming up this quarter and we will be announcing those soon.* ***<u>Have a terrific week!</u>***