FIERSTON
FINANCIAL GROUP

Q&A
JAN 2019

THE STATE OF THE MARKET AS WE ENTER 2019

Stock market volatility in the 4th quarter resulted in a number of conversations with our clients concerned about the big swings and negative returns. In this month's letter, we'd like to share our thoughts on the most frequently asked questions.

Are you worried about Trump and the political environment?

With power shifting in the House of Representatives and candidates posturing for the 2020 Presidential election, the political rhetoric is going to continue to be heated and largely negative. New and ongoing Congressional and Justice Department investigations will be sources of angst. We expect partisan politics to intensify in the months ahead.

This daily deluge of negativity is hard to ignore and can divert our attention as investors from financial reality. Fundamentals, like corporate earnings and economic activity, are the factors that ultimately drive markets and stock values.

What the heck happened at the end of December?

As 2018 came to a close, the stock market made some dramatic moves – including a drop of nearly 3% on December 24th and 9% for the month overall.

We believe the market was "oversold." There was a "disconnect" between market levels and economic fundamentals. What created this schism? In analyzing the situation, it turns out there was a good deal of computerized "program trading" that put the market into a tailspin. With many Wall Street traders on vacation, there simply weren't many buyers around, which compounded the results.

For some clients, we took this late-December sell-off as an opportunity to make purchases. For others, we didn't need to take action because we already rebalanced many portfolios earlier in 2018. Our disciplined approach to asset allocation is made for times like this.

Happy New Year

Our entire family gathered together over the recent holidays and there are many updates to share. William is now working as an Associate Financial Service Professional at Charles Schwab in Denver, Marissa and Mollie are both studying this semester in Barcelona, Nate is a freshman at Elon University in North Carolina, and Dave and Rochelle are enjoying their winter in Florida.

We hope 2019 is off to a good start for you and your families.

Best,
Seth and Brian

Does the market seem more volatile to you?

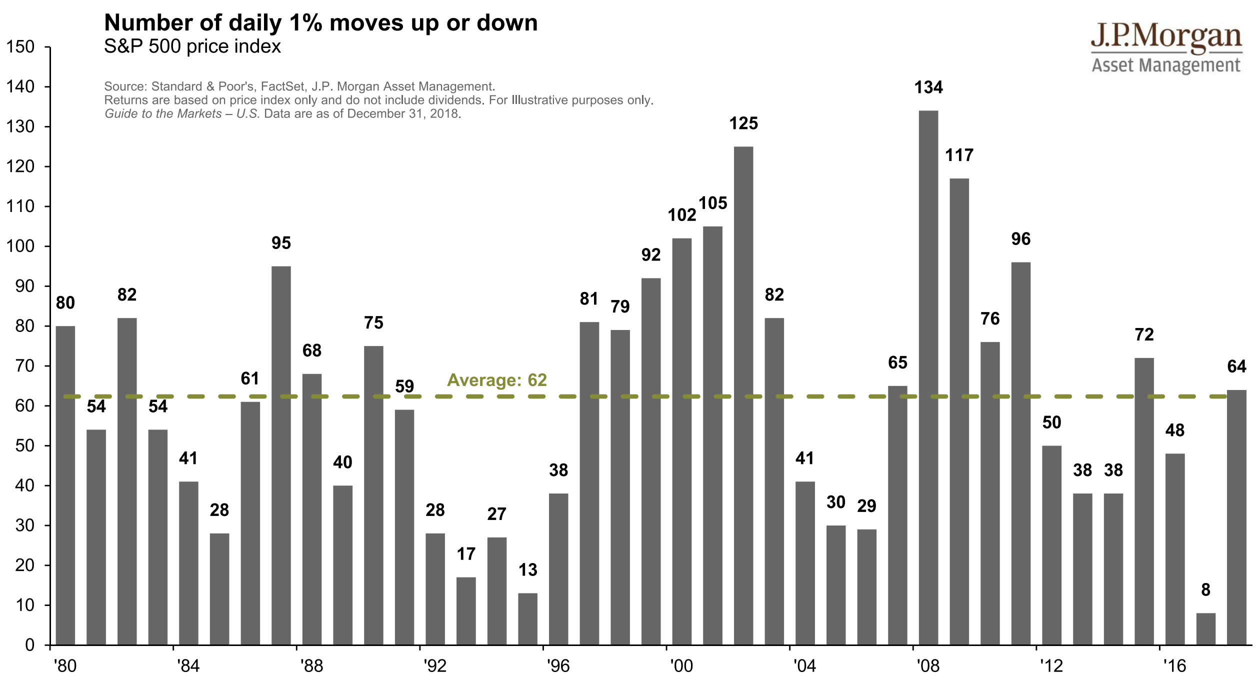
Yes, there has been a significant increase in volatility. To drive home the change, in 2018, there were 64 days when the S&P 500 Index moved more than 1%. By contrast, 2017 had historically low volatility - with the S&P moving more than 1% on only 8 days! This low volatility made the return to a more "normal" level in 2018 feel very dramatic. To further this feeling, the volatility in 2018 was concentrated in November and December, with 18 shifts of more than 1% in just the final two months.

The reality is the current level of volatility is very close to historic averages. The "new normal" that formed around the historically low volatility of the preceding years was the oddity.

Is a recession inevitable?

There is a good deal of talk in the media about a looming recession. When these stories arise, it's helpful to remember a recession is defined as two consecutive quarters of negative economic growth. While economic growth is showing signs of slowing, there is a vast difference between slowing growth and a shrinking economy. And let's not forget that the Leading Economic Indicator Index is still rising.

For many, the word recession brings up memories of 2008 and a repeat of that painful experience. However, a great deal has changed since then. Financial system reforms and regulations are now in place, and the excesses of 2007 are gone.



If you'd like to discuss these questions or others you have further, please call Seth or Brian anytime

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Important Disclosure Information