Market Review with Ted Halpern

2019: Another Year Where Diversification Paid Well!

At the risk of stating the obvious: 2019 was a fantastic year for you as an investor. For the year, the S&P 500 gained a whopping 31.5% and the DJIA gained 25.3%. In the fourth quarter alone, the S&P 500 gained 9.1%, and the DJIA gained 6.7%.

It was not just stock markets delivering above average performance—bond markets rallied to have a terrific 2019 as well. Even though bonds and equities can have a tendency to move inverse to each other, your 2019 fixed income performance was also outstanding. Elevated performance from both stock and bond markets is not always true in good times…typically, if equities rally, then bonds are average at best. If bonds rally, typically stocks struggle. This was not the case in 2019. In fact, all of the bond asset classes we use ended both the quarter and year in positive territory! Some even hit equity-like double digit returns for 2019! Although you do not hear this much in the news, we just experienced the 19th-best year for stocks and the 18th-best year for bonds since 1926!

Clearly, it was a phenomenal year to be an investor—but more importantly, it was a phenomenal year to be a well-diversified investor. Usually when good news comes from a single sector, like tech stocks or emerging markets, it is a short-term occurrence. But when we see a wide breadth of strong performance across many asset classes, it is the result of sustained economic strength and solid market fundamentals. Equities did well this year because the majority of people were employed and corporate earnings have been strong. Bonds did well because the Federal Reserve changed its tune and cut rates three times in 2019. These cuts work like insulin shots to the price performance of bonds and combined with their interest yields, delivered wonderful results.

Looking Ahead

Sometimes people feel worried when markets have experienced such a positive upturn. They wonder if they are at the peak of the rollercoaster, about to drop. Remember that success, financial and otherwise, is not possible if you only expect the worst. We don’t have a crystal ball to foretell what will happen this coming quarter or for the year ahead, but we always ensure your portfolio can withstand changing market cycles. We are proactive and we take prudent precautions in your portfolio to prepare for what may come. This includes efficient rebalancing of your portfolio positions to bring them back in line with what we deem appropriate for you and constant monitoring of the positions to ensure their optimal management and performance compared to their peer group.

We remain optimistic the financial future will be better than today, but we are also realistic. Short-term volatility does occur. I encourage you to take the same outlook within your own life. The result will likely make you happier, wealthier and also prepared for any outcome.
Quarterly Commentary

Fourth Quarter 2019

You don’t have to see the whole staircase, just take the first step.

– Martin Luther King, Jr.

This is the time of year when we all look to the year ahead and make grand plans to improve ourselves. We have a tendency to get focused on one thing, like vowing to go to the gym multiple times a week in an effort to lose some weight. But those efforts will not make a difference unless we also focus on eating well and managing stress. Just like physical health, financial health comes from more than one factor. You cannot save more without spending less and/or making more.

This year, take the steps you need to be more financially fit. Rather than over-focusing on one goal at the expense of others, take achievable steps in a variety of areas to improve your position overall. Although it is not immediately obvious, it is usually more beneficial for you to pursue multiple financial goals at once than it is to achieve them sequentially. Remember time is a valuable resource just like money. When you keep debts longer, they grow and you pay more interest. When you delay saving to investments because of other goals, your money loses the ability to experience compound growth. It is far better to put your money to work sooner. For example, if you’re saving for a costly goal, remember the importance to continue investing as well, even if it is a smaller sum. You must have the ability to walk and chew gum! You need to save, you need to invest, and you need to continue to achieve! At the end of the day your net worth will benefit.

If your current financial picture is not all you want it to be, now is the time to make a change. If you received a raise this year, commit to increasing savings. Interest rates are low, so it’s a great time to consolidate and pay off any debt (particularly variable debt, or debt on an item that depreciates in value).

What is your 2020 vision? We hope you see opportunity ahead and have the faith to go get it done. We certainly see opportunities coming tomorrow and we look forward to taking part in them. Wishing you a prosperous and healthy New Year!
Quarterly Commentary

Fourth Quarter 2019

Investment Commentary with Kirsty Peev, CFP®

Summary:

Mammoth Q4, stellar year, wonderful decade for equities!

2019 provided investors with reason to celebrate. The final quarter of the year (and decade) delivered wonderful returns – with the S&P500 up 9.1% in Q4, and 31.5% for the year.

2019 taught a valuable lesson: proactive long term investors win! At this time last year, would you have guessed we would experience over 30% growth in equities and positive returns across the board? To refresh your memory, in January 2019 investors were reeling after a serious market correction in Q4 of 2018, sentiment was very negative, and we faced multiple headwinds: the trade war, potentially slower economic growth, an unclear Fed policy and even a mid-year yield curve inversion. Yet markets fought those concerns off and strong fundamentals delivered stellar returns. If you had tried to sell in December 2018 and get back in when things seemed more "stable," it would have seriously hampered your returns.

Your bond holdings successfully navigated the rising rate environment of 2018 and the falling rate environment of 2019 with incredible stability. We have designed your portfolio to weather a wide variety of market scenarios and recent years have shown our approach works. All of your bond holdings soared in 2019 and ended Q4 with very healthy returns.

Broad-ranging support for equity markets. In 2019, stocks benefited from strong economic data, corporate earnings that exceeded expectations, an accommodative Fed delivering multiple rate cuts, and hope for progress in the U.S. – China trade talks.

Bond markets continued to outperform expectations. Bond investors experienced steady and strong gains in each quarter – in almost all bond asset classes!

U.S. Equities:

S&P 500 delivered gains of 9.1% in a single quarter to end the year! Adding to substantial gains from earlier in the year, the S&P500 gained a whopping 31.5% for 2019.

Large caps led the way. Investors have heard talk of a slowing economy for some time now and large cap companies (such as those included in the S&P 500) are less sensitive to a slowing economic environment than their smaller company counterparts.

Celebrate the strong returns of this year and recent years. Don’t fear them. Returns over the past decade are not excessively out-of-line with what a long-term investor should expect in equities, based on historical averages. As we close out the decade, we can gain some perspective by looking back at returns.

• For the past decade (from 1/1/2010 through 12/31/2019), the S&P500 delivered average annual returns of 13.6%.
• Over the past 15 years, the average annual return of the S&P500 is exactly 9%.
• Historically, U.S. equities have generated average annual returns around 10%.
• Note that the gain experienced in early 2019 was actually a correction—to the upside. When you offset the 2019 gains with the dip from December 2018...the actual net gain is right in line with the average annual long-term gains for equity markets.
Trade talks and tariffs led markets in the short term. Truces, talks and tit-for-tat tariffs all added to high levels of volatility within equity markets – but 2019 showed us that volatility can go to the upside too! Investors focused on fundamentals, and strong economic and corporate data prevailed.

International Equities:

International equity markets around the globe were strongly positive for Q4 and YTD, but lagged the U.S. A focus on trade tariffs and potentially slowing global economic growth held back international markets.

International fixed income was also positive Q4 and YTD, likely because many major global central banks cut interest rates, or restarted a quantitative easing program.

In 2019, investors shrugged as multiple Brexit deadlines came and went without an agreement. For 2020...is a hard Brexit likely? Most of the world did not consider Brexit to be a headwind for markets in 2020. While U.K. markets viewed the re-election of Prime Minister Boris Johnson in December as a strong positive, some investors are worried that this substantially increases the chances of a ‘hard Brexit,’ where the U.K. leaves the E.U. with no agreements in place.

Emerging markets had periods of lagging other countries and economies – but also periods where the asset class soared. The strong dollar somewhat curtailed growth in emerging markets during 2019. We believe emerging market equities remain attractive as the higher risk profile part of a diversified portfolio.

Bonds:

After raising rates aggressively during 2018, the Fed completely changed course and cut rates 3 times during 2019. This fast reversal of policy did cause an ‘inversion of the yield curve’ (rates on 2 year Treasury notes were higher than rates for a 10 year note) but this was brief and has since adjusted back to a more ‘normal’ yield curve.

U.S. bonds continue to be attractive globally, as international investors wrestle with zero or even negative interest rates. We believe this has propped up the price of U.S. Treasurys, which is why we continue to avoid direct exposure to them within your portfolio. Taking advantage of Institutional active management in your bond portfolio proved to be an excellent strategy during the rising rate climate of 2018 and the falling rate environment of 2019. We believe this approach will continue to show its worth. Liquidity and quality within your bond portfolio will be key.
Expectations and Perceptions for the Future:

EQUITIES

The main expectation is not to dwell too much on expectations! If you expect markets to go down just because they reached a new high...take a pause. Markets hit new highs all the time, and we want them to! Remember your investing journey is long and will traverse many economic and market environments. Short-term market moves up or down should not change your long-term plan.

The ongoing trade war has the potential to weigh on the economies of the U.S. and China, and other countries. We believe the U.S. and China are committed to avoiding the type of economic Armageddon a full-on trade war could create. All signs indicate a firm commitment to progress.

Diversification continues to be critical. Your equity portfolio includes various company sizes, sectors and industries domestically and internationally.

Volatility is likely to continue in 2020. A national election year provides inherent volatility, and on top of that, trade war discussions, tensions between the U.S. and Middle East, and the ‘final’ Brexit deadline on 1/31 will affect investor emotion and movement.

We believe the Fed’s ‘easy money’ environment will help investor sentiment. The combined effect of key central banks delivering accommodative monetary policies during 2019 was strong. We are monitoring these policies, and the potential for central banks to act when some are already in negative rate territory.

BONDS

The Fed is committed to stability. Before 2019, the Fed increased interest rates 7 times in 3 years. After the rate increase in December 2018, markets dropped almost 20% in a month. The reversal of policy with 3 subsequent rate cuts helped markets rally. While ‘market stability’ is not an official mandate for the Fed, they are willing to act as needed.

Low rates likely to continue, and diversification in bonds remains critical. Your bond holdings have shown the ability to deliver strength in both rising and falling rate climates.

We continue to monitor high yield (lower quality) bonds for credit risk potential. High yield bonds have soared as investors seek income in a low rate environment.

Money market deposits soared to all-time highs during 2019 as investors remained worried about the yield curve, and a possible recession in 2019. This has resulted in a massive amount of cash available for investment across many asset classes. Bonds are poised to take advantage of this as nervous investors seek income, and trim back equity exposure.

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