



Quarterly Commentary

First Quarter 2019

Market Review with Ted Halpern

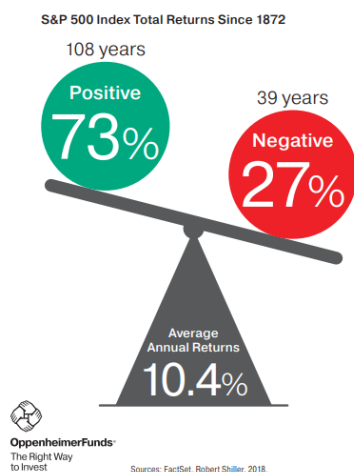
The first quarter of 2019 was a welcome sight after the market's wild ride in 2018. In 2018, we had 3 corrections, 4 rate hikes and a mid-term election – just in the U.S. I'm sure you remember the hysteria during each of the 3 corrections, the worst being in December!

Q1 2019 brought gains due to several positive items. The Fed will likely be far more accommodative going forward, the U.S.-China trade issues may reach a conclusion soon, and employment numbers continue to be strong. All of this brought widespread healthy gains: the S&P 500 gained 13% (324 points) and the DJIA gained 11% (2,582 points) in the quarter. What a great start to the New Year, and welcome news after a rocky 2018.

The Correction No One Seemed to Notice

Sometimes people will tell me they are waiting until the time is right to invest. Typically, they're waiting for the market to correct so they can invest at a discount. I ask these people, "Did you invest during the 3 times the market corrected last year?" The answer is typically no. Perhaps they were unaware the correction happened, or they were waiting for prices to go even lower and then missed out.

We experienced another correction in Q1, but barely anyone noticed. I certainly didn't see any headlines about it. Remember—corrections can happen to the upside or the downside. It is simply the market correcting to a more appropriate valuation. Yet the recent upside correction of *over 20% from the lows of December* passed with little fanfare. I am not sure why the media does not highlight favorable market news... Yet the mantra seems to be "if it bleeds, it leads." It seems only the downside corrections get any media attention! Even when the market is up or at new highs, we see skepticism and worries about "what goes up must come down" and "Could it be the next 2008?"



I guess "The Market is Doing Great: Go Out and Enjoy the Sunshine" is not a particularly gripping headline.

Who wants to live their financial life that way, only focusing on the bad news? Certainly, you should not ignore bad news...just make sure it does not command the majority of your focus. After all, markets are positive in most years!

Tune Out the Noise. Focus on Your World.

Investors need not concern themselves with media noise. In fact, it is far more successful to your financial health to tune out most of the coverage, in good and in bad times.

It is far better to focus on the news surrounding your own world. Did you recently get a promotion or raise? If so, then save it by increasing your monthly savings plan and/or making a lump sum contribution to your own portfolio. Did you just finish paying off a loan of some type? If so, put the same amount you were



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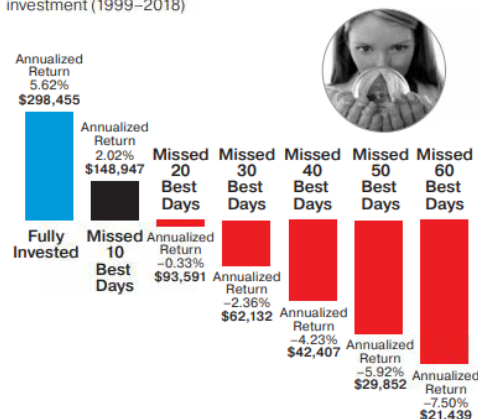
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spending on loan payments toward deposits in your saving and investment accounts. Are you expecting a tax refund, or do you owe a tax bill? As investors, we save when we can, and we spend when we need to.

If you have a goal in mind, make a positive plan to accomplish it. Do not delay the plan based on factors completely outside your control. Market events, political climates or economic data have almost nothing to do with your personal ability to save or your need for funds. Certainly, if markets or economies experience a very bad cycle, then perhaps it would affect your income and thus your ability to save. If they are doing well, then you may be able to make greater progress...but for most people, these macro events do not impact their personal income level. What truly matters for your goals is all right in your own backyard!

Missing Even the 10 Best Days in the Market Reduced Returns by Almost 50% in the Last 20 Years

S&P 500 Index: Annualized total returns and growth of \$100,000 investment (1999–2018)



Markets provide investment lessons all the time. Sometimes you really have to look for them and other times they are in big bold letters right in front of you. The market swings of 2018 and the first quarter of 2019 provide wonderful lessons:

- **Now is always the best time to save.** We always look for value when investing savings. Of course, we do not want to buy assets when they are “marked up.”
- **Don’t rely on a crystal ball for your future.** No one knows the next turn markets may take. A diversified strategy allows you to benefit long term, even if assets zig and zag in the short term, without having to guess the future. You can see in the graphic at left how much jumping in and out of the markets can cost investors.

“The future depends on what you do today.”— Mahatma Gandhi

We will certainly see more corrections downwards and upwards in the market’s future. I would not be surprised to see a “reversion to the mean” in which asset classes slow down from the breakneck pace we have seen in Q1. But I am certainly not wringing my hands and worrying about such a move. That is the beauty of a properly diversified strategy designed to thrive for the long term. Enjoy the spring, and seize the opportunity to plant some money and watch it grow!

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We value our relationship and are here anytime you have any questions. Be well, be an optimist and remember—you do not need to wait for the “right” conditions to improve your financial situation. The power is in your hands and Halpern Financial is here to help you structure and implement your plan.



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Investment Commentary with Kirsty Peev, CFP®

Summary:

The first quarter of the New Year provided significant and welcome relief after the “return of volatility” at the end of 2018. Investors enjoyed a healthy rally across every single asset class.

The best January for equities in 30 years!

Admittedly, it is just a point-in-time observation, similar to headlines like the ‘worst December since the Great Depression’, or ‘worst start to the year since 2008.’ Still, the January numbers are very welcome after an unpleasant end to 2018!

Remember to celebrate corrections UP!

Corrections can happen up or down—it is just a term for markets finding equilibrium. Domestic stocks “corrected up” in Q1, shrugging off December’s losses and adding significant gains on top.

Still bargains in international equities.

International equity markets have also seen incredibly healthy gains since the end of the year,

but these were muted based on Brexit uncertainty and slowing growth in China.

Slow growth (as opposed to *no* growth) ahead. The economy is still growing, though the rate of growth is slower than before. Lower margins, higher input costs, stronger dollar, and slower global growth all impact the rate of profit growth.

Fed changes its tune, and equity and bond markets react positively. In a significant change of course from 2018 (a year with FOUR rate hikes in consecutive quarters) we may now see zero rate hikes during 2019. There is now even talk of a potential rate cut being the next Fed move.

U.S. Equities:

U.S. equities all delivered incredibly strong results in Q1. The S&P500 gained 13.6% in Q1. The intense volatility and negativity of December feels like a distant memory. As your Advisor, we are disciplined in our approach, and are careful not to place too much importance on short-term excessive fear or euphoria. Instead, our approach focuses on your long-term plan and the levels of risk/return appropriate for you.

Corporate fundamentals remain relatively strong despite a slower global growth rate. Earnings season delivered strong numbers, and there are currently no indicators to suggest a near-term recession. Employment reports continue to be favorable. Despite the longest government shutdown in history at the start of the year, there appears to be no obvious effect on hiring overall and the shutdown didn’t dampen investor enthusiasm.

Trade Talks led markets up early January, and have continued to do so. U.S. officials had meetings with Chinese counterparts, and markets reacted positively to reports of progress. Economically the U.S. and China need each other, so we believe they both have an incentive to make things work long term.

Market Moment

Have you ever wondered why Wall Street is called Wall Street?

It was once the northern wall of the Dutch settlement of New Amsterdam.



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International Equities:

Brexit uncertainty had little impact on developed international. The U.K. was legally set to leave the political and trading bloc on March 29. That deadline came and went. Prime Minister Theresa May's plan faced one defeat after another in Parliamentary votes. She survived a 'no-confidence vote' and even offered to resign as a condition of getting her deal passed. Still no solution. The deadline has been extended to reach a new agreement and avoid leaving the E.U. with no deal in place.

Multiple opportunities in international. If negotiations continue in the U.S.-China trade

dispute, Europe resolves political uncertainty and China maintains stable economic growth. China presented strong manufacturing data at the end of the quarter.

Emerging markets (EM) have 'led and lagged' even in a single quarter. Emerging markets are one of the most volatile asset classes, with the biggest potential for risk and reward. Thus, our allocation to this area is limited. EM had a soaring start to the year, and medium-strong gains for the rest of the quarter. The key to the long-term benefit of EM is to keep a diversified, limited allocation, resisting the urge to time the market.

Bonds:

Bonds are providing positive, steady performance across the board. Most bond asset classes provided 3 consecutive months of incremental positive returns. This is one of the roles your bond allocations are supposed to perform!

Normal behavior from each bond category—a good thing! Short-term bonds delivered the most muted returns, followed by higher gains in intermediate, and even higher gains in long term bonds. As investors, we expect to earn better yield when we lend money for longer time periods.

Higher-risk bonds are less risky than equities—yet delivered equity-like returns. Investors were rewarded for taking on credit risk in high yield corporates, floating rate bank loans and emerging market bonds. High yield (lower quality) municipal and corporate bonds outperformed.

No interest rate hike from the Fed during the quarter – as expected. The Fed's policy statement appeared to be changing tone. The word 'patience' was mentioned 8 times in the statement! This may suggest a low rate policy with potentially no more hikes in the near future.

Municipals delivering very strong risk- and tax-equivalent returns. The tax-exempt nature of municipal bonds remains attractive as investors file their first returns after the 2018 Tax Cuts and Jobs Act, and feel the impact of several tax deductions being eliminated or reduced.

Yield curve briefly inverted, markets yawned. At the end of the quarter, the yield curve inverted – meaning that long-term bonds yield less than short-term bonds. This has since returned to a more 'normal' yield curve slope. Bond markets didn't budge. Challenging interest rate environments like this highlight the importance of incredibly high-quality fund managers that we take advantage of for your income portfolio.

Expectations and Perceptions for the Future:

EQUITIES

End of the business cycle possible (but it's not the end of the world). For long-term investors, the yield curve is an indicator of the health of the economy. Typically when the yield curve is very flat, as it is now, it can indicate that we are near the end of the business cycle (going from expansion to contraction). However this information in itself is not a predictor of how the economy or stock markets will react in the short-term. We continue to monitor this, along with many other economic indicators including the unemployment rate, inflation, and GDP growth rate. Your portfolios are incredibly well diversified and positioned ideally to thrive in a variety of economic and market environments.

Lower growth rate likely to continue. As we face potential lower growth rates ahead, risk management becomes more important. While we avoid timing equity markets, income markets, interest rates and economic cycles – we will take steps to prepare for the upcoming environment. This includes a focus on lower-volatility holdings and allocations to cash-healthy companies.

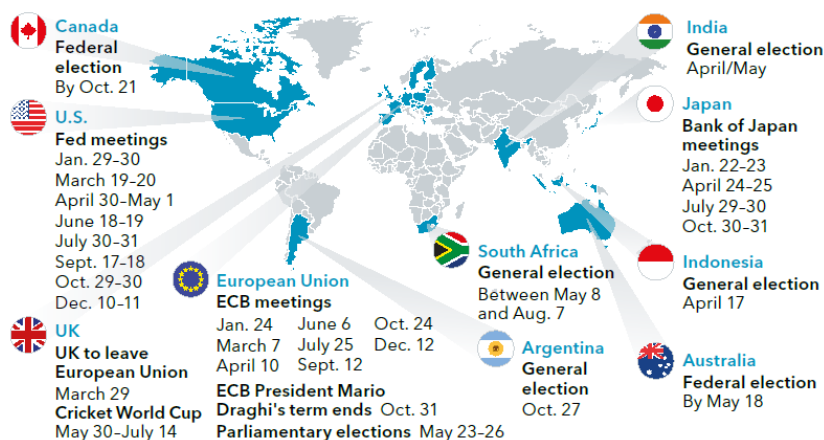
International markets influenced by China results and Brexit. Recent headlines have focused on these two international issues, although global markets have been seemingly unconcerned about Brexit. The China situation has two key elements – how they handle the potential slowdown in

economic growth, and how the trade situation with the U.S. plays out. China has been implementing various stimulus measures to help with slowing growth and recent manufacturing data has been strong, suggesting some progress in this area. Every day seems to bring a new headline in the U.S.-China trade talks, and markets rise in coordination each day it seems we are closer to a deal. Many of the outstanding issues have reportedly been resolved, clearing the path for an agreement.

Emerging markets potentially more stable this year? During 2018, a significant number of the countries within the emerging market space had elections – causing significant uncertainty and volatility. This year only a small handful of these countries have elections, hopefully laying a smoother path.

Save the dates

Events to watch in 2019



Source: BlackRock Investment Institute, November 2018. Notes: The ECB meetings are those accompanied by press conferences. The BoJ events shown are followed by the publication of the central bank's outlook report.



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BONDS

Opinions on future Fed strategy are mixed!

Income investors continue to watch the Fed carefully. Some Fed watchers still expect as many as 2 rate hikes. The majority opinion suggests zero hikes or even a reduction in rates! The Fed reiterated their plan to focus on a more patient approach to raising rates. As always, the Fed decisions will be data dependent.

Remember the Fed has three specific goals....and none of their goals are to manage the stock market! The Federal Reserve operates under the mandate to 'promote maximum employment, stable prices, and moderate long term interest rates.' (Note: "prices" relates to inflation and not the price of equities in the market.)

High quality, Institutional management is key in your income portfolio.

Your income portfolio has maintained incredible stability and strength through 4 Fed rate hikes last year, year-end stock market wild moves, and a yield curve inversion during the first quarter this year. The yield curve may well invert again. This has historically caused great angst for income and equity investors. Your income portfolios are incredibly well diversified and contain exposure to a vast array of bonds all through the yield curve. These are constantly rotating and being adjusted.

Inflation still not an issue. We are at the target level around 2%.

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