FINITY GROUP, LLC

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January 2019

Year End Market Update

There was little holiday cheer in the markets during the 4th quarter this year. Nearly all major indexes were down during the quarter except fixed income which, measured by the Bloomberg Barclays US Aggregate Bond index, posted a 0.01% return. While 4-14% declines in equity markets and a jolt of volatility are not the most comforting backdrops for holiday gatherings, in our opinion there are many reasons for long term investors to stay positive.

Volatility, What's that?

For many investors, 2018 was an unwelcome reminder of the volatility that comes along with investing in the stock market. It felt like 2018 was a very volatile year. We saw a +1,000-point day on the DOW, which was the highest ever, but the up days are never as memorable as the down days when it comes to investing and there were plenty of those too. Looking at the S&P 500 index though, we would argue that it wasn't a historically volatile year. Counting days in which the index had a 1% move, either positive or negative, it was only the most volatile year since 2015. When it comes to why it felt so volatile, it was likely due to the year's performance relative to 2017, which was one of the least volatile years ever. The historical annual average of trading days with a +/- 1% since the 1920s is 58 and 2018 had 42. But compared to only 8 in 2017, the jump back to more normal levels was quite unsettling for many investors. Shedding our collective recency bias helps put the year in perspective. For long term investors it would be nice to have low volatility years like 2017. However, that is likely an unrealistic expectation and focusing on long term objectives despite a return of volatility to more normal levels will be an important part of a successful financial plan.

For 2019, we expect there to be no slowdown in volatility as markets try to process a continuing rising interest rate environment, trade wars, and slowing corporate earnings. These fundamental challenges, paired with the fact that this is the longest bull market on record, will undoubtably create fertile ground for speculation that the bull market's end is nigh. While not ignoring these challenges, we continue to have an expectation of modest positive returns for the domestic equity markets. We root our expectation in continued strong corporate earnings growth (albeit slowing), low unemployment, and modest inflation. While there is always a chance of an unknown systemic issue lurking, the underlying economy continues to appear strong.

International developed and emerging markets were performance detractors in globally diversified portfolios during the year. While developed markets struggled to sort through the ongoing Brexit negotiations emerging markets were defined by the dramatic sell-off in Chinese equites. Measured by the Shanghai composite index, the Chinese stock market was down 25% from the start of the year, wiping out $2.4 trillion in value. The slide was in line with the index's 2008 performance, making it the worst performing major stock market in the world according to Bloomberg.

Fixed income was the only major asset class to eke out a slightly positive return in 2018 and represented why the asset class warrants a role in a diversified portfolio. While it's 0.01% return is not anything to get excited about it, the asset class acted as a good ballast relative to the equity asset classes, which were down 4%- 14% in the year. Going into 2019, the landscape does appear to be more favorable as expectations for interest rate hikes have come down from four quarter-point raises to two. While any rising interest rate environment makes it difficult for fixed income investors, the reduced expectation should be a positive for the asset class.

Going into any year, but especially in volatile years, it is important to revisit your financial plan and determine if your goals, time horizons and risk tolerances have changed. These will be the largest drivers of a what allocation is appropriate in your investment accounts. While it is tempting to react to what is going on in the market, we encourage investors to instead stay with the strategic allocation designed for their personal financial plan. It is not always easy in the face of declining asset prices, but in the end rebalancing, and focusing on the long term is often the best strategy.

We are always ready to assist you and answer any questions regarding this newsletter or any other financial matter that may come up. If any changes to your situation have occurred, please contact us at your convenience.

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Index	Closing Price: 12/31/2018	Closing Price: 9/28/2018	Q4 2018 Return	2018 Return
S&P 500	2,506.85	2,913.98	-13.52%	-4.38%
S&P 500 Value	999.70	1,144.50	-12.04%	-8.95%
S&P 500 Growth	1,512.02	1,779.52	-14.71%	-0.01%
Russell 2000	3,351.51	4,216.41	-20.20%	-11.01%
Russell 2000 Value	5,852.51	7,238.67	-18.67%	-12.86%
Russell 2000 Growth	5,177.70	6,621.54	-21.65%	-9.31%
MSCI EAFE	1,719.88	1,973.60	-12.50%	-13.36%
MSCI EM	965.67	1,047.91	-7.40%	-14.25%
BBgBarc US Agg Bond	2,046.60	2,013.67	1.64%	0.01%

Written by Finity Group