INVESTMENT PERSPECTIVE DECEMBER 2018

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MARKET COMMENTARY

Stocks could not sustain their summer rally and many indices fell into bear market territory during the fourth quarter. This was the worst December for the S&P 500 since 1931 as the Santa Claus rally that many were waiting for never materialized. The S&P 500 made up of large cap US stocks fell -19.3% from its high before bouncing slightly after Christmas. Its return was –13.52% in the fourth quarter which erased the prior gains and resulted in a loss of –4.38% for 2018. Small cap stocks in the Russell 2000 are now lagging large stocks and had a quarterly return of –20.20% and a loss of –11.01% for the year. International stocks also struggled with the developed markets in the MSCI EAFE reporting a quarterly loss of –13.79% and a year-to-date loss of –12.39%. Emerging market stocks reported a –7.69% loss in the quarter and a –16.55% loss year-to-date. Bond yields sharply retreated to near beginning of year levels resulting in the Barclays US Aggregate Bond Index recording a 1.64% gain in the quarter which turned its 2018 return slightly positive at 0.01%.

The recent retreat in the US stock market does not seem to be tied to problems in the economy as the economy is on solid footing. Third quarter GDP growth was 3.4% and full year 2018 growth is expected to be 3.0%. This year has the highest growth of any year since the recession. Corporate profits also continue to have strong growth with full year earnings growth near 20%. Unemployment reached 3.7% which was the lowest level since 1969. This holiday retail season was the best in 6 years. In addition, oil prices are down so gas is less expensive which is usually seen as a positive for low-income workers. Inflation is also below the Fed's 2% target again. The tariffs and possible trade war concerns have been weighing on the markets throughout the year and if anything, the outlook improved as the US and China agreed to a 90 day delay.

2018 BENCHMARK RATES of RETURN

INDEX	FOURTH QUARTER	YTD
S&P 500	-13.52%	-4.38%
DJIA	-11.31%	-3.48%
NASDAQ	-16.00%	-1.23%
Russell 2000	-20.20%	-11.01%
International	-12.39%	-13.79%
Fixed Income	1.64%	0.01%

Although, the slide in the stock market seems to be disconnected from the current economy, it is possible the market is factoring in future unforeseen events. A reduction in consumer confidence cannot be dismissed because it could become self-fulfilling. If people become concerned and stop spending in anticipation of hard times, it could cause the economy to slow. Next year, economic growth and earnings growth are already expected to slow as many tax reform benefits will already be factored into year-over -year comparisons but it is not expected to be recessionary. This coming slower growth has also been widely expected so should not be a surprise to the markets.

The Federal Reserve raised rates again in December as expected by 0.25%. The Fed has changed its commentary to be more dovish and they decreased their expectations to only raise rates two times next year. Some analysts, along with President Trump, have voiced their belief that the Fed needs to pause or risk ending the economic recovery. JPMorgan's strategist, David Kelly, believes the Fed will be less likely to raise rates next year because they won't want to upset the markets, inflation is below their target, and the decline in stock valuations has reduced the risk of asset bubbles.

The 10-year Treasury bond yield peaked at 3.23% and then fell sharply back to 2.69% by the end of the year. Concerns of an inverted yield curve re-emerged as the 2-year and 5-year Treasury yields have been flat and flirting with inversion. The spread between the 2-year and 10-year Treasuries is more important when signaling a possible future recession and so far, inversion between 2 year and 10 year yields has not occurred.

Most major asset classes other than cash have been flat or negative for the year. Diversification can help investors stay invested during turbulent times and avoid emotional trading. We will likely see more volatility and it will be important to have an appropriate asset allocation so that emotional selling doesn't take over and derail an investment plan. Strategas Research has pointed out that the average mid-term election year correction is 19% and that one year later, stocks have always been higher (since 1962) The current downturn, may end up being a buying opportunity.

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

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FINANCIAL PLANNING
To Do's in the New Year

The beginning of a new year brings about resolutions and to do lists. Here are some suggestions of financial tasks to tackle in the first quarter of 2019 to get your year off to a good start:

- Review or set goals for the year. Maybe you want to save a certain amount, make gifts of a certain amount, or keep better track of your spending.
- Create a budget that reflects your goals. Making a budget doesn't have to be unpleasant. Having the right mindset can make budgeting empowering because you can make sure you are spending your money on your priorities rather than wondering where it went during the month.
- Increase your contribution rate to your retirement plan to make sure you are maxing out or at least contributing enough to earn the maximum match. Even if you are on track to reach your retirement goals without increasing your savings, saving more can increase your flexibility, provide more cushion and peace or mind of simply help you reach your goals sooner.
- Review your financial plan with your advisor. Update your plan with current values for outside accounts not managed by Cambridge Advisors.
- Gather your tax documents and prepare your tax return early this year. Tax Reform changes may affect you differently than you expect and so the sooner you know the outcome, the earlier you can make changes to your current year withholding. You can also discuss with your accountant any tax saving strategies that may be beneficial with the new tax code.
- Review your wills and estate plans if you haven't. Also review the beneficiaries you have on your accounts to make sure they are still appropriate. A newer issue in estate planning involves planning for your "digital" estate. This includes closing social media accounts and/or streaming services, accessing photos stored in the cloud, as well as being able to log into computers and smart devices.
- Shred old statements and bills that you no longer need. Schwab keeps 10 years of statements available online so you do not need to keep all your statements. You may even want to consider going paperless.

Many of these items can be done any time during the year, but wouldn't it be nice to check them off your list earlier so they don't hang over your head for the whole year. Then you'll have more time to do the things you like to do without feeling guilty. If we can help you with any of these items, please do not hesitate to reach out to your advisor.

Happy New Year!

QUESTION: What is tax loss harvesting?

ANSWER: Nobody likes losses. However, in taxable accounts, you may be able to take advantage of them through tax loss harvesting. When you sell a security that has a loss, you can use that loss to offset the gain from selling another security. Through this tax loss harvesting action, you can reduce or eliminate the tax that you would have owed on the gain. If you don't have gains to offset, you can use up to $3,000 of the loss to offset ordinary income. The amount you don't use, can be rolled forward to use in a future year.

When harvesting a tax loss, you may sell a security that you still want to hold long term. The security can be bought back 30 days after it has been sold. You may not want to be uninvested during that period in case the market moves higher. One solution is to buy another security that is similar to the one being sold that would likewise participate in any bounce. For example, if Exxon Mobil was sold, use the proceeds to reinvest in Chevron or another oil company or index. Another solution if cash were available is to double up on the security by purchasing shares and after 30 days sell the original shares with the bigger loss. Losses can be harvested in any type of investment and at any time of the year—not just year-end.

2019 Retirement Contribution Limits

Retirement Plans	2018	2019
401k and 403b Plans	$18,500	$19,000
Catch up contributions*	$ 6,000	$ 6,000
IRAs		
Traditional or Roth IRA	$ 5,500	$ 6,000
Catch up contributions*	$ 1,000	$ 1,000
SIMPLE IRA	$12,500	$13,000
Catch up contributions*	$ 3,000	$ 3,000

*If you are age 50 or older, you can make additional catch up contributions

CAMBRIDGE ADVISORS NEWS

Just a reminder that we no longer send a year-end bound comprehensive report. We felt that the information in the previous booklet was not as useful as it once had been to clients. In an effort to make our reports more meaningful, we eliminated several reports and kept only the ones that had information we thought clients would want to see. Schwab tracks cost basis on their system and provides the year-end tax reports for capital gains and losses in addition to dividends and income. These reports are mailed in mid to late February.

We are continuing to measure and update client risk tolerance using the Riskalyze software. Thank you to those who have completed the survey. We will continue to email a link to clients prior to meeting with their advisor so that we can gather this information for all clients to help us make sure asset allocations are appropriate.