Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE — DECEMBER 2019

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MARKET COMMENTARY

Stocks climbed to new highs in the fourth quarter and finished the year strong. The large cap stocks in the S&P 500 rose 9.07% in the quarter and finished the year with a 31.49% total return. Small cap stocks in the Russell 2000 were up 9.94% for the quarter and 25.52% for the year. International stocks were also up for the quarter; developed markets in the MSCI EAFE gained 8.21% and emerging market stocks were up 11.93%. This brought their year-to-date returns to 22.66% and 18.88% respectively. Bond yields rose slightly in the quarter and the Barclays U.S. Aggregate Bond Index posted a return of 0.14% for the fourth quarter and ended the year with a 8.87% return.

The top 5 companies of the S&P 500 are 16.5% of the S&P 500 so the returns of the index are highly influenced by these 5 companies. Technology stocks performed the best this year with average returns of 50.3% for the sector. Apple is 4.55% of the index and had an 88% return for 2019. Communication services and financials were the only other two industries that performed as well as the S&P 500. Energy and healthcare were the worst performing sectors with returns of 11.8% and 20.82% respectively. Interestingly, Apple is now bigger than the entire energy sector of the S&P 500.

GDP growth has slowed to near its long term projected rate of 2.0% and is expected to stay near that level in 2020 and 2021. Although it has slowed, most analysts are not predicting a recession in the near term. The Federal Reserve continues to react through lowering interest rates and other monetary policies which is warding off any threats of negative growth. Unemployment remains at record lows and inflation is also below the 2% target.

Corporate earnings likely finished the year with growth in the mid-single digits for 2019. Much of the stock market returns in 2019 was due to multiple expansion rather than earnings growth. In 2018, earnings growth was 21.7% but multiples contracted and the S&P 500 had a negative return of -4.4%. Over the long term, earnings growth drives stock market returns. Since multiples are above their 20-year average, there is not much room for multiple expansion in 2020. Therefore, unlike the previous two years, stock returns should be more reflective of actual earnings growth in 2020.

International stock multiples are lower than those of stocks in the US and are in line with their long-term averages which could mean international stocks have more room to grow long-term versus US stocks. However, this growth may not come until after 2020. Analysts see slowing growth for China from continuing trade tensions even though a Phase One deal between China and the US was reached. Brexit seems back on track but Vanguard expects the Euro-economy to only see growth around 1% until new trade agreements can be established.

The Federal Reserve cut its benchmark interest rate by a quarter percentage point in September and has held steady since then. Most analysts believe that the Fed will continue to hold rates at current levels or lower 1 to 2 more times at most According to Strategas Investment Research, the length of time between the Fed's first rate cut and the next rate hike is 571 days. The first cut was in July so the Fed may not raise rates at all in 2020. The Fed's current benchmark Fed Funds rate is now sitting in the 1.50-1.75% range. Even though short-term rates haven't moved, the 10-year Treasury bond has seen its yield rise from 1.68% at the end of September to 1.92% at year end. The yield curve has slightly steepened.

We are entering an election year. The incumbent will likely try to pass policies favorable to growth to increase the odds of re-election. The impeachment hearings and typical campaign related activities may result in more volatility in the markets. Most analysts we follow think that 2020 will see positive stock returns-even with the market gyrations-but more subdued than 2019. Investors should carefully consider the risk in their portfolios to make sure they can tolerate potential pullbacks without an emotional response that could result in selling at an inopportune time. With stock prices near their highs, now is a more attractive time to rebalance to a lower-risk allocation if warranted. Please talk to your advisor if you have questions about the risks in your investments.

2019 BENCHMARK RATES OF RETURN

INDEX	FOURTH QUARTER	YTD
S&P 500	9.07%	31.49%
DJIA	6.67%	25.34%
NASDAQ	14.60%	35.23%
Russell 2000	9.94%	25.52%
International	8.21%	22.66%
Fixed Income	0.14%	8.87%

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

Asset Class Returns and Risk

The classic investment rule has been that you have to take more risk if you want to have higher returns. In the 1980's and 1990's, investors were happy to take more risk and invest in stocks because the returns were averaging 10%+ per year. In the first 10 years of this century, investors were reminded what risk was as stocks fell 50% from their highs twice during the decade. Even so, from 1950 through 2018, the S&P 500 has had an average annual return of 11%. Many people are still using that 10-11% as an average guideline of what stocks return over the long term and it has been the catalyst for them to choose stocks over bonds since bonds have only averaged 5.8% over this time period.

However, the last 20 years paint a different story. The S&P 500 has had an average annual return of only 5.6%. Some analysts have been predicting that stocks will only grow in the mid-single digits for the next decade. Many investors have dismissed this guideline thinking that they will have higher growth closer to their long-term average. However, seeing that the last 20 years have had only 5.6%, the 4-7% they have been forecasting may be plausible.

Furthermore, bonds over the last 20 years have returned 4.5% per year on average—not much less than stocks. Looking forward the next few years, yields may not rise much if any and bond returns may be near their stated coupon rate which is not very enticing. The capital preservation feature will be more attractive than their income production.

A blended portfolio that has both stocks and bonds may be a more palatable solution for many. The bond portion provides safety and protection if there is a big decline in stocks. The stock portion provides growth opportunities that bonds will likely not have. A mix of 60% stocks and 40% bonds had a 5.2% average annual return over the past 20 years. More importantly, when the stock market fell in 2008 through 2009, this portfolio recovered its losses and was back to its 2007 peak within 3 years. It was 4 1/2 years before the S&P 500 recovered its losses and about 9 years until its returns outpaced the 60/40 portfolio.

Interestingly, the average investor over the past 20 years let their emotions overshadow their investment decisions and had only a 1.9% return—they sold when stocks went down and didn't buy until stocks had already gone up. (As measured by mutual fund flows analyzed by Dalbar Inc.) We encourage clients to choose an asset allocation that is in line with their risk tolerance so they can stick to it through market fluctuations to avoid ill-timed trades. The Riskalyze software helps us measure risk tolerance and we have been using this tool when meeting with clients to help determine an appropriate asset allocation for their portfolio. If you have questions about your asset allocation and its corresponding risk, please contact your advisor.

CAMBRIDGE ADVISORS NEWS

In 2020, Cambridge Advisors is celebrating its **30-year anniversary**. Our firm was founded on a client-centered approach of providing professional investment management and financial planning with a high level of quality and personal service. That approach is still prevalent today and will be for the next 30 years.

Cambridge Advisors now manages nearly $500 million in assets, and we serve clients in over 20 states. We have grown because our clients and others have introduced us to their friends, family, and business associates. Thank you. We appreciate the trust and confidence you place in Cambridge Advisors. Please continue to introduce us to those you think may need an advisor who will help them plan for their retirement, preserve their wealth in retirement, and leave a legacy for future generations. We believe our services and approach are not just beneficial but truly necessary in this changing environment.

As we reflect on our history, we also plan for our future. We've spent the last several years updating our technology in regards to our recordkeeping and reporting systems, risk measurement and financial planning software, as well as introducing a client portal. We are currently working on updating our website to be mobile friendly.

We promise that as we grow, our professionals will always be dedicated to providing our clients the high quality services they need with the personal attention they desire.

SCHWAB NEWS

Schwab recently announced that beginning October 7th, they are eliminating commissions on most stock and ETF trades! This doesn't apply to the transaction fee on some mutual funds but is a great step in further reducing the costs of trading.

You've also heard by now that Schwab is buying TD Ameritrade. Both companies are leading custodians and we are excited to see what enhancements the combined company brings to the industry.

2020 Retirement Contribution Limits

Retirement Plans	2019	2020
401k and 403b Plans	$19,000	$19,500
Catch up contributions*	$ 6,000	$ 6,500
IRAs		
Traditional or Roth IRA	$ 6,000	$ 6,000
Catch up contributions*	$ 1,000	$ 1,000
SIMPLE IRA	$13,000	$13,500
Catch up contributions*	$ 3,000	$ 3,000

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

Serious about your future