1/2/19

2018 – THE ROLLERCOASTER BEGINS!

Last Monday, our portfolio equity position was at a temporary high of 19%. By Friday, we ratcheted that down to 14% and, as of today, we have no equity in the managed portfolios.

At this juncture, the S&P 500 has been more volatile than it has been in a decade, as investors turn fidgety and nervous. In just the last three weeks (12/3 to 12/24), markets have fallen a staggering 16%, while we were down just 1.6%. As of this moment, there are no returns in the S&P 500 going all the way back to October of 2017! The full drop of the S&P 500 from its high in September is -19.4%. We were able to avoid nearly all of that collapse, falling only 1.1% during the same time period with virtually no volatility.

What a year 2018 turned out to be!

When markets are this volatile, we often err on the side of proactivity and protection as opposed to the more typical buy-and-hold stance. Many investors pushed risk to the limits, based on the false premise that past performance is an indicator of future returns. In January of 2018, investors moved off the sidelines and blindly entered into shark-infested waters at the peak of what we describe as a panic stock market buying binge. They were caught up in a severe case of FOMO (Fear of Missing Out) and they looked smart when, by late January, the S&P 500 was up an eye opening 7.4% with the FAANG (Facebook, Amazon, Apple, Netflix, Google) stocks leading the charge. Netflix alone was up 48% in the first three-and-a-half weeks of the year! Risk managers like ourselves looked positively stodgy as a new wave of advisors (who hadn't lived through any remotely difficult times!) piled on more risk with a devil may care attitude. They touted that time-worn strategy of "diversification" and made sure that their clients had investments in stocks of every flavor from domestic equities to dividend paying equities to international equities to emerging market equities. In January, with safer bonds like treasuries looking like a relic of the past, advisors piled their clients into junkier bonds in an effort to get a higher yield.

After a 10% drubbing from late January to early February – a time when our portfolios only lost 0.40% – the markets rebounded, rising 15% from April to September. During this time, the financial media contended that upside potential would be relentless, as increasing earnings, tax cuts, repatriation, an innocuous Federal Reserve, ever-rising oil prices, and functioning debt markets would keep markets well lubricated and liquified – and the dance would be kept going well past closing hours! To an outsider, using risk metrics, which we continually do, may have looked like a positively antiquated method of investing. However, in truth, valuations were peaking, consumer confidence was peaking, and markets that were previously frothy beckoned in new investors even as larger investment groups and insiders started to shed their shares.

How quickly sentiment changed after late September!

Taking a look at some broad asset classes and their 2018 performance, you can see that diversification ***did not*** serve the masses well this year.

Stock Fund/Index	Ticker	2018
S&P 500	SPY	-4.6%
S&P 500 Value	IVE	-9.2%
Russell 2000	RUT-I	-12.2%
MSCI International	EFA	-13.8%
MSCI Emerging Markets	EEM	-15.3%

Bond Fund/Index	**Ticker**	**2018**
Investment Grade Corporate Bonds	LQD	-3.8%
Bloomberg Barclays Hight Yield Bonds	JNK	-3.3%
Emerging Market Bonds	EMB	-5.5%
Oppenheimer Gl Strategic Income	OPSIX	-5.2%

Prognosis for 2019

Volatility will remain high, as a multitude of sugar highs wear off (tax cuts, repatriation, artificially low rates, ability for corporations to tap debt markets with reckless abandon) or investors are forced to pray for relief (maybe the Federal Reserve blinks, maybe a global systematically important bank won't fail, maybe a painless Brexit divorce, maybe stock buybacks will eclipse the trillion dollar mark, maybe a China tariff agreement, maybe the ECB resumes its bond buying program, maybe earnings won't be as bad, maybe a new fiscal program such as an infrastructure package or middle class tax cut, maybe, maybe, maybe…). Hope and "maybe" doesn't strike us as a good investment philosophy – especially with your lifetime retirement savings!

Regardless, eventually the fundamentals win out and when they do, we could see years of unearned gains quickly get swept away.

Vigilance will be key going forward. We expect to see sharp and fleeting rallies followed by breathtaking declines continue as painful realizations begin to surface. The money market is paying just under 2% and we are now positioned with maximum cash levels. This year will provide opportunities to take advantage of the anticipated volatility but, in the meantime, we are sitting on the sideline earning interest. We want to thank you for your continued confidence in allowing us protect your portfolio.

As always, we will continue posting articles that we believe to be of great informational value on our website, under the "Great Articles" tab, which is linked here:

http://summitplan.com/cgi-bin/htmlos.cgi/great_articles.html.

Additionally, the "Summit Planning Financial Hour" will be live this week on Radio 570-WSYR at 10AM on Saturday. Don't forget to tune in for a recap of the week's events. If you cannot tune in, check out our radio show archive on our website at http://summitplan.com/cgi-bin/htmlos.cgi/radio_shows.html.

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4. All performance referenced is historical and is no guarantee of future results. Index performance is not indicative of the performance of any investment.
5. Investors FastTrack is the source for all quoted performance data.
6. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.
7. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.
8. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.
9. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.
10. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
11. The Dow Jones Industrial Average is comprised of thirty stocks that are major factors in their industries and widely held by individuals and institutional investors.
12. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
13. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.
14. The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.
15. CBOE Volatility Index is a measure of the implied volatility of S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).
16. All indices are unmanaged and cannot be invested in directly.