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THE BIG REVERSAL

Equity markets have been in an overbought position since January 11th and have gone up, albeit with very little participation, for one reason only – our Federal Reserve did a complete policy reversal! Investors rarely understand what has actually transpired. It's true that stock markets have rallied, but investors should be asking "Why?" and "Is it something to hang my hat on?" The straight answer is a resounding "no!" When a Central Bank alters its path so profoundly, it can only be attributed to just one thing – ***PANIC***. Unfortunately, central bankers never want to share which ghosts of their financial past caused such terror. In the fall, prior to Fed Chair Powell's reversal, through our own constant vigilance in world financial markets, we detected enormous cracks in the financial system. For that reason, we did what responsible and risk-aware investors do… We took serious measures to reduce risk and protect our portfolios. When the S&P 500 fell a resounding 19% from September 20th through Christmas Eve, our portfolios only fell 1%!

It was just a year ago that the Fed (with Jerome Powell at the helm) ***finally*** began to stop delaying and implement their plans to cease providing fuel for speculation, not investment. As you know, they had been doing this by keeping interest rates artificially low and being the buyer of first – and last – resort of U.S. debt. For a period in late January and early February of last year, our central bank ***allowed*** the stock market to fall 10% - and they did not run to the rescue. This meant that they did not enable unabashed and dangerous risk-taking in stocks and riskier bonds, allowing the market to recover at a more natural pace.

But that 19% decline in late fall to Christmas Eve,
proved too much for our appointed monetary crew to stand idly by.

So, after their end of January meeting, the Federal Reserve told the world how desperately worried they were about the financial system. ***Just to clarify, this is normally not a reason to buy stocks and riskier bonds***. Now, instead of raising rates this year, the current plan to do that is on hold. Additionally, the bloated balance sheet of bonds that were purchased to keep interest rates low is now promised to be readjusted at will. And, the best part is that they stand at the ready to ***lower*** interest rates and, if conditions warrant, ***they will set the stage for Quantitative Easing #4***. In plain English, they see conditions that appear to be as ominous as they were in 2008!

This is definitely not the time for unabashed risk taking…

But the current equity rally would have the
average person thinking quite the opposite.

So, what we end up with is a low volume melt-up in equity prices. During this time, we made a few calculated buys and sales. The most recent was our purchase of Amazon just before their earnings release. Amazon prevailed and beat all their metrics and initially went up 3%. But, as with Google and other companies, the market chose to push the stock down because they mentioned that they will be doing more capital spending to improve their company for future viability. As of the writing of this letter, Amazon's stock is below where we sold it.

Earnings season has certainly been a mixed bag with the waning effects of the corporate tax cuts. In fact, the key optics to watch won't be results from the fourth quarter of last year. Instead, they will be hidden in the forecasts for the coming quarters of 2019. ***As of this week, current Wall Street expectations for earnings growth for the first quarter have turned negative!*** Again, this is typically not the time to be buying stocks hand-over-fist. In this day and age, it has become literally impossible to find a company that is growing organically without all the additional fluff that is added to the earnings results. Watch for the usual smoke and mirrors of a company lowering their profit expectations, cutting their workforce, announcing hefty buybacks while reporting less revenue and profit.

Because the world financial system is so highly integrated, we are always observing and gauging actual growth across the globe in order to make better informed investment decisions. ***The picture right now is anything but rosy!*** Europe, China and Japan are all experiencing lower economic growth rates, even now warning about 2019. A fully aware investment portfolio takes these measures into account rather than whistling by the graveyard. In one sense, this is keeping the central banks of all the aforementioned countries in full-on enabling mode but the message is truly "buyer beware".

It's true that there is still high anticipation for the resolution of some events in the near-term. One hope is for some softening or agreements on the tariff front with China. Another hope is for a friendly divorce – or no divorce at all – between Great Britain and the European Union. If these issues are satisfactorily resolved, the markets may see a one-day rally before again returning to the reality of actual economic data.

At this point, with the markets at their current year highs, they have moved into a severely overbought technical position. We believe the next opportunity will lie in taking positions to protect downside risk. We have a multitude of tools to preserve wealth and also experience appreciation as markets retract from the short-lived excitement of our Federal Reserve moving into panic mode. This week we added positions in gold bullion, U.S. treasuries, municipal bonds, and a short position on the S&P 500. Our recent cash position has been intentionally high. Our money markets are earning a very attractive 1.5% to 2% interest. So, when high yield bond and risky stock markets are showing elevated levels of impairment, cash truly becomes king. At the same time, we are constantly locating additional investment opportunities that exhibit capital preservation, low volatility and good yields. As we continue to dig deeper into these funds we will be looking to implement a few of them over the coming weeks.

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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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.
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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. All indices are unmanaged and cannot be invested in directly.