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FOURTH QUARTER COMMENTARY
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The stock market closed out a strong year with a great fourth quarter. All stock market indices had large gains led by the NASDAQ which was up 12.47%. Growth stocks led value stocks, continuing the trend of recent years. The S&P 500 gained 9.07%.

For the year, the market was led by the NASDAQ and the Russell 1000 growth index (large cap) with both earning over 36%. The S&P 500 gained 31.49%. Emerging markets, which had a good fourth quarter, had the lowest yearly return with a gain of 15.42%. Hedge funds with a long-short equity focus performed well and distressed credit funds had generally weak returns. As a point of reference, the S&P 500 is up about 10% over the past sixteen months.

Interest rate movements were mixed. Short term rates declined in line with the Fed reducing rates while longer term rates increased as recession fears eased. The yield curve is no longer inverted because of these moves. The following are treasury yields for various maturities:

MATURITY*	12/31/18	9/30/19	12/31/19
3 Month	2.45%	1.82%	1.55%
2 Year	2.50%	1.62%	1.57%
10 Year	2.68%	1.68%	1.92%
30 Year	3.01%	2.12%	2.39%

*Source: Factset

The key drivers of higher stock prices appear to be:

- The reduction of interest rates by the Fed;
- Expectation of continued low interest rates and low inflation;
- Increased liquidity in the global economy due to continued quantitative easing (QE) by the European Central Bank and the Fed's September decision to inject additional liquidity;
- Lack of reasonable alternatives for generating income;
- Steady economic growth and low unemployment;
- Steady corporate earnings with continued growth in certain sectors;
- Expectation of a trade deal with China.

Over the past six months, a number of our clients, along with numerous market pundits, have expressed fear of a coming recession and a meaningful decline in stock prices. A few years ago, we wrote that this economic cycle could be different than past cycles. A typical cycle involves very strong economic growth coming out of a recession, often aided by strong fiscal stimulus and accommodative Federal Reserve policies. The economy reaches growth rates of 4% - 5% for a few years. Strong growth is helped by increased risk taking by banks. Eventually risk taking and unsustainable growth lead to imbalances, resulting in banks pulling back on lending, Fed tightening (usually too much), higher unemployment, and weaker consumer spending

followed by a recession. So what is different this time? Coming out of the financial crisis, Federal Reserve policy was very accommodative, but fiscal stimulus was less than usual as Congress would not approve Obama administration spending initiatives because of a supposed fear of increased deficit spending. In addition, banks were coming out of a severe credit crunch and were also deterred from taking too much risk because of new government policies put in place during the credit crisis. The growth rate this cycle peaked at only 3% and generally has been about 2% annually. Banks slowly ramped up risk taking, but not like past cycles.

It is now ten years since the last recession ended and the economy continues to grow at approximately 2% per year. Banks are in reasonably good shape, unemployment is low and consumer spending is strong. We do not know what the catalyst for the next recession will be. We do expect there will be one, but it is likely to be milder and shorter than past recessions because economic imbalances have not become as extreme as in the past. This is not to say conditions could not change in the future which could cause a more extreme recession.

What we are seeing this time are rolling sector slowdowns. The energy industry has been in a recessionary mode. More recently, the manufacturing sector, including the auto industry, has slowed, and farm incomes have decreased. None of these sectors are large enough to cause an overall economic slowdown / recession. Uncertainties caused by trade policies contributed to a manufacturing slowdown and muted capital spending by businesses. Hopefully, these trade issues will be resolved and can provide a positive boost to the economy. In the meantime, consumer spending has remained strong and consumer activity is about 68% of our economy.

Some of the angst among investors is due to the political climate. Polarization is stronger than we have seen in our lifetimes. We believe stock prices over the long term are determined by economics not politics. While discomfort with the current political climate is understandable, we do not believe it has any effect on long term values.

We believe stocks can have single digit returns in 2020 barring a sudden geopolitical crisis. The determination of who will be the Democratic nominee carries some risk. Economically, we believe overall growth of approximately 2% is realistic. Of course, stocks are not inexpensive and any negative surprise including geopolitical risks can always trigger a correction (at least 10% lower). If the economy continues to grow, there is no certainty the stock market will follow. Australia had twenty five years without a recession, but its stock market had five downturns of over 20% each during that period.

The current environment is not affecting our investment plans. We continue to rebalance portfolios to make sure every client's asset allocation and level of risk is consistent with their investment plan, and are happy to do so in a rising stock market.

P.S. There were significant changes to the tax laws regarding retirement plans. We will be sending a letter on this issue during the quarter.