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As we close out another year, 2018 had a bit of a different feeling than the previous two years when the market seemed to do no wrong, with the S&P 500 up 9.5% and 19.4% respectively in 2016 and 2017. January of 2018 continued where 2017 left off with upward movement in stocks. This was not to last as the S&P 500 dropped 10% in February. From that point on we have seen much greater volatility in the market than many of us have been accustomed to over the last couple years. The S&P 500 moved higher throughout the course of the summer hitting record highs in September, only to experience another 10% correction in October. The back and forth continued throughout November eventually leading to another drop in December. After all was said and done, the S&P 500 closed at 2,506, down 6.2% for the year.*

So where does that put us as 2019 begins? As we stated in our letter in October, there is a lot of uncertainty in the US and Global markets, and much of that remains unchanged over the last couple months. Trade issues continue to persist, global growth forecasts are lower, and earnings for companies are projected to come down from the historic numbers that were reported in 2018. All of these headwinds for the market have one thing in common, they are all based on the uncertainty of what the future holds, not explicit facts. We do not feel we are in the midst of a financial crisis like we saw in 2008, when companies were going belly up and it was apparent to the masses that something was truly wrong. The US GDP hit its best level in years in 2018. Current price-to earnings ratios sit below historical averages showing that the market is not overvalued at this point, if anything we believe it could be seen as undervalued.** From our perspective, a recession does not appear to be on the horizon for 2019. We will continue to make adjustments in your portfolios to take advantage of undervalued areas of the market. Our best advice at this point is to remain invested, look for pockets to invest in that are undervalued, and keep the dividends and interest flowing, as a guiding principle of our investment philosophy is to maintain a dual focus on growth and income.

Despite the volatility we have seen in 2018 and the uneasiness it has caused investors, we find it important to maintain a historical perspective when it comes to the market. Since 1939, the year following the mid-term elections has averaged an 18.45% annual return, with the only negative return coming in 1939**. Although, history is no indication of future results, the third year of any recent presidency has traditionally been a strong year. For those of you more interested in the downside of the market throughout history we have enclosed a chart outlining

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the bull and bear markets since 1926. If we do happen to fall into a bear market in the next few years, the chart will show that the bear markets are smaller and shorter in duration, than the subsequent bull markets that followed. None of us enjoy when markets have large dips, but it is important to understand that this is completely normal activity and those of us that have remained invested and patient have been rewarded time and time again throughout history. As always, please contact us should you have any questions, comments, or concerns. We look forward to speaking with you in 2019, and as always we greatly appreciate your business.

Sincerely,

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* Source: Wells Fargo Investment Institute Market Commentary, The Year in Review. December 27, 2018.
** Source: bea.gov/data/gdp/gross-domestic-product
*** Source: Wells Fargo Investment Institute Economic and Market Strategy Update. December 2018.

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All investing involves risks, including the possible loss of principal invested. Diversification and asset allocation do not assure or guarantee better performance and cannot eliminate the risk of investment losses.

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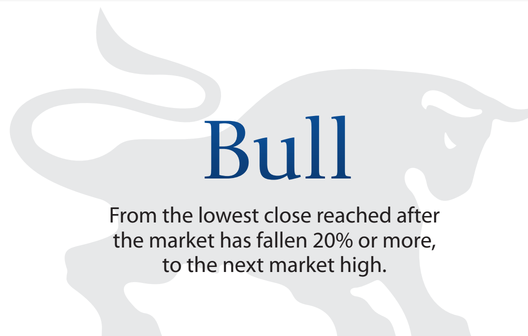
History of U.S. Bear & Bull Markets Since 1926

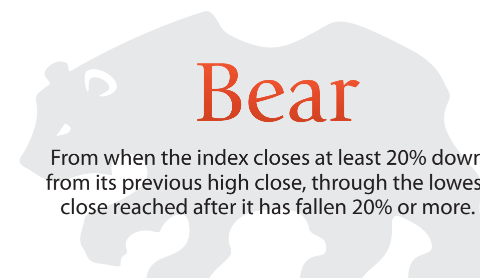
This chart shows historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets from 1926 through September 2018. Although past performance is no guarantee of future results, we believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

- The average **Bull Market** period lasted 9.1 years with an average cumulative total return of 480%.
- The average **Bear Market** period lasted 1.4 years with an average cumulative loss of -41%.



Bull

From the lowest close reached after the market has fallen 20% or more, to the next market high.



Bear

From when the index closes at least 20% down from its previous high close, through the lowest close reached after it has fallen 20% or more.

S&P 500 Index Total Return (*Logarithmic Scale*)

10
5
1
0.1

Duration
% Total Return
% Annualized

3.7 years
193.3%
34.1%

2.8 years
-83.4%
-47.0%

13.9 years
815.3%
17.2%

6 months
-21.8%
N/A*

15.1 years
935.8%
16.8%

6 months
-22.3%
N/A*

6.4 years
143.7%
14.9%

1.6 years
-29.3%
-19.7%

2.5 years
75.6%
25.3%

1.8 years
-42.6%
-27.2%

12.9 years
845.2%
19.0%

3 months
-29.6%
N/A*

12.8 years
816.5%
19.0%

2.1 years
-44.7%
-24.8%

5.1 years
108.4%
15.5%

1.3 years
-50.9%
-41.4%

9.6 years
384.8%
17.9%

Bull Market
Bear Market
Recession

1930 1940 1950 1960 1970 1980 1990 2000 2010 2018

Source: First Trust Advisors L.P., Morningstar. Returns from 1926 - 9/28/18. *Not applicable since duration is less than one year.

These results are based on monthly returns–returns using different periods would produce different results. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.

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