

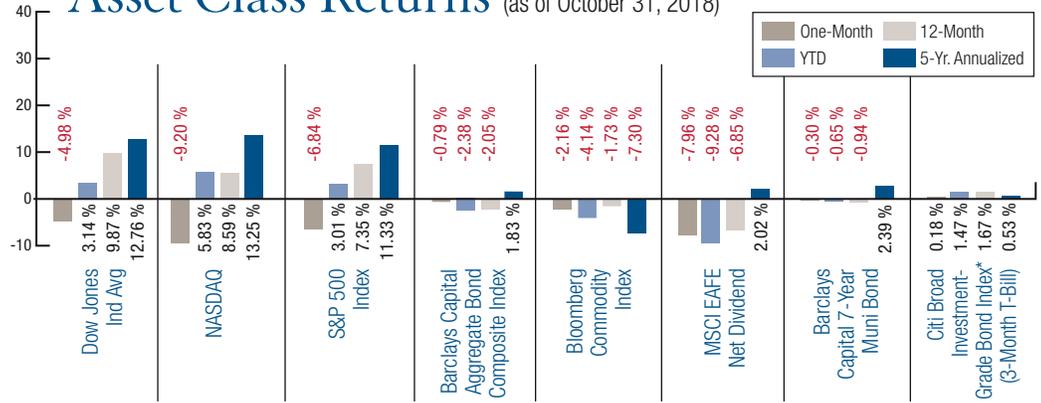
From the Office of Jeff Sgroi, CFP®



“Remember not only to say the right thing in the right place, but far more difficult still, to leave unsaid the wrong thing at the tempting moment.”

-Benjamin Franklin

Asset Class Returns (as of October 31, 2018)



Material prepared by Raymond, James for use by its Financial Advisors

Market & Economic Synopsis

- U.S. midterm election cycle wraps up with Republicans maintaining control of the Senate, Democrats gaining majority of the House, and some races still undecided
- Crude oil prices drop for record 12 consecutive trading days from late October through early November, reaching mid \$50s/bbl; OPEC pledge to cut output accelerates oil sell-off
- UK Prime Minister Theresa May wrangles with politicians on how to best exit European Union

- Amazon elects to split newest headquarters between New York City and Northern Virginia
- The U.S. Dollar Index enjoys multiyear high versus British pound and Euro
- U.S. Treasuries catch a bid, as 10-year rate dips below 3.10%
- California wildfires continue to burn; Camp Fire alone has killed 56 people and destroyed thousands of structures

Market Update

Since our September market letter was written, U.S. equity markets have seen a substantial uptick in volatility, and a notable pullback from all-time highs recognized that same month.

One of the tools we use to quantify volatility is the VIX index. Spikes in the VIX index are often synonymous with equity market sell-offs.



The last two substantial upward moves in the VIX were October 2016 (due to uncertainty surrounding the 2016 presidential election) and February 2018 (due to issues surrounding trade wars and rising interest rates). As the chart above shows, the VIX level was, for the most part, extremely low and stable during the 2017 calendar year. As expected, this coincided with a positive year in the equity markets with minimal peak-to-trough gyrations.

So why the market sell-off this October, followed up by lack of market direction for the first part of November? Similar to the precipitous drop in February, there was no single event or explanation for October's movement, but rather a number of possible explanations.

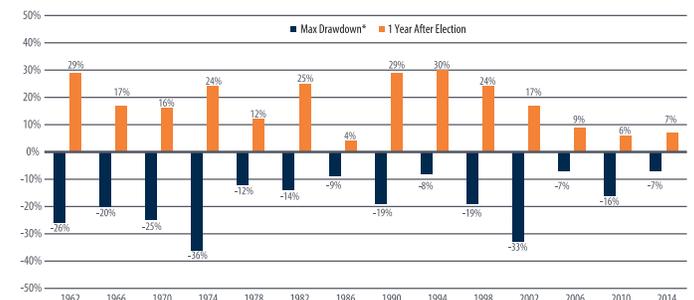
Uncertainty Leading Up to Midterm Elections

Anecdotally speaking, uncertainty of any sort (political, economic, etc) can put the equity markets into a frenzy. Political pundits enjoy predicting election outcomes as soon as candidates are announced, and this November's midterm election cycle was no exception. Although election outcomes were as many predicted, the what-ifs provided fodder for heavy market movement leading up to Election Day on November 6. Aside from a few states still counting ballots, we have some clarity on what to expect from the Senate and House of Representatives over the next two years. Election results aside, our interest is now in market direction.

S&P 500 Index

S&P 500 Index Performance During Midterm Election Years vs. Performance 1 Year After Midterm Election Day

YEAR-TO-DATE VERSUS 1 YEAR AFTER



*Max drawdown covers period from beginning of year of mid-term election to election date. Source: Bloomberg, First Trust Advisors, L.P., 11/2018. Data is through the last midterm election on 11/4/2014.

If history is an accurate indicator, we have reason to be optimistic for the next 12 months. As the previous chart shows, the S&P 500 has moved higher over a 12-month period following each of the past 14 midterm election days.

Rising Interest Rates

Interest rates have been on the rise for the past two years. The 10-year U.S. Treasury yield has moved from 1.50% to as high as 3.24% recently.

As rates rise, equity investors consider the safety and income generated by bonds. Additionally, borrowing costs become higher for companies. It is widely accepted that rising rates can damage bull markets. As the Federal Reserve continues to indicate that they will stay on a path of increasing interest rates, investors' concerns remain elevated.

U.S. Dollar Strength

Although there are many benefits to a stronger U.S. dollar, equity markets often fall during periods of dollar strength. Specifically, foreign equity markets and, particularly, emerging equity markets tend to be sensitive to a rising U.S. dollar.



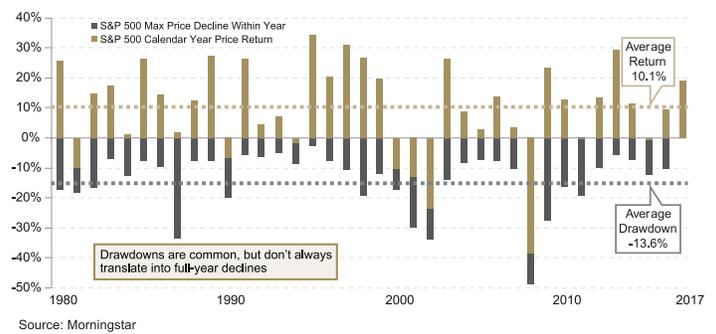
Source: Powershares DB US Dollar ETF NAV, Morningstar

If we track the performance of the U.S. dollar during 2017, it coincides perfectly with a very strong international equity market. That trend reversed early in 2018.

What to Do

As uncomfortable as down markets may be, they are to be expected. In times of uncertainty, I often look to history as a source of perspective.

S&P 500 annual price returns versus maximum price decline, as of December 31, 2017



As noted above, average drawdown movement (peak to trough) for the 28 years since 1980 is 13.6%. Over that same time period, the average calendar-year return for the S&P 500 is 10.1%. Market activity in 2018 has been within historical norms.

The takeaway is to stay the course, but reassess if need be. We are happy to have a conversation with you and to review your specific situation.

From the Homefront

We have had an inordinate number of visits to the doctor and dentist over the past month. Between three cases of strep throat, two sinus infections, and a few undiagnosed, mystery illnesses, we hope that we are past the worst of the winter crud.

In addition, Hannah fell out of Tracy's vehicle and lost a tooth to the concrete curb, about three years ahead of schedule. The good news is the tooth fairy did make a visit to our home that night, much to Hannah's delight.

During Thanksgiving week, we look forward to my brother and his family visiting us from Jackson, WY. Tracy is planning a 5K run-fundraiser on Thanksgiving morning at Basalt Elementary School.



As part of our annual tradition, I look forward to sharing what I am thankful for at our Thanksgiving table. I am thankful for many things this year, including the ongoing opportunity to work with you, our clients. I am also thankful for my staff and my supportive family, who all make it possible. I wish the best to you and your families during Thanksgiving as well.

Index performance is shown for illustrative purposes only and does not reflect the deductions of fees, trading costs or other expenses, which will affect actual investment performance. You cannot invest directly in any index. Individual results may vary. Past performance is not a guarantee of future results. There is no assurance any of the forecasts mentioned will occur.

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