PLANNING POINTS…

December 2018

Index	4Q 2018	2018 YTD	Avg. Annual Return Since 12/31/01
S&P 500	**-13.5%**	**-4.4%**	**6.8%**
Dow Jones Industrial Average	**-11.3%**	**-3.5%**	**7.7%**
NASDAQ	**-17.5%**	**-3.9%**	**7.5%**
MSCI EAFE	**-12.5%**	**-13.8%**	**5.1%**
BBG Barclays US Aggregate Bond	**1.6%**	**0.0%**	**4.2%**
Citi 3 Month US T-Bill	**.6%**	**1.9%**	**1.3%**
The S&P 500 Index Total Return is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. It consists of 400 industrial, 40 utility, 20 transportation, and 40 financial companies listed on U.S. market exchanges. This is a capitalization-weighted calculated on a total return basis with dividends reinvested. It represents about 75% of the NYSE market capitalization.			
The Dow Jones Industrial Average Total Return covers 30 major NYSE industrial companies. The Dow represents about 25% of the NYSE market capitalization and less than 2% of NYSE issues. It is a price-weighted arithmetic average, with the divisor adjusted for stock splits. This Index includes the effects of reinvested dividends.			
The NASDAQ covers 4500 stocks traded over the counter. Represents many small Composite index company stocks but is heavily influenced by about 100 of the largest NASDAQ stocks. It is a value weighted index calculated on price change only and does not include income.			
The MSCI EAFE Net Dividend is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States & Canada. Approximates the minimum possible dividend reinvestment. The dividend is reinvested after deduction of withholding tax, applying the rate to non-resident individuals who do not benefit from double taxation treaties. MSCI Barra uses withholding tax rates applicable to Luxembourg holding companies, as Luxembourg applies the highest rates.			
The Barclays Capital Aggregate Bond Composite index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors			
The Citi 3 Month U.S. T-Bill Index is a measurement of the movement of 3-month T-Bills. The income used to calculate the monthly return is derived by subtracting the original amount invested from the maturity value.			
Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.			

All of us at Gavin & Associates wish you and your family a happy and healthy New Year!

STOCK MARKET REVIEW

(unusually long for an unusual year)

The fourth quarter of 2018 will likely be remembered for being one of the most punishing fourth quarters for stocks, especially for the poor performance in the month of December.

It may also be remembered for producing a record Santa Claus rally (albeit late) in the last few trading days of the year that provided much needed relief. There has never been a one-day advance of 1086 points for the DJIA before! Let's hope there are many more in our future.

GDP growth of 4.2% in 2Q18, 3.4% in 3Q18 and expectations for 2.9% in 4Q18 and +2% GDP growth in 2019 do not currently signal a recession. In a normal market environment, economic growth, solid earnings, low inflation, low interest rates, low unemployment, low energy prices, high consumer confidence and strong government spending would all support a bullish case, but the market consistently ignored solid news throughout the fourth quarter. Rationality can be rare during selling stampedes.

Like most markets in 2018, there was almost nowhere to hide in the stock market. Of the nearly 100 indices we review, only the consumer discretionary, health care and utilities stock sectors eked out gains for the year. In most cases, it didn't matter which style of stock investing was employed or how well a stock portfolio was diversified…….large stocks, small stocks, domestic, international, dividend-paying, non-dividend paying……most lost money in 2018.

In general, U.S. stocks produced losses in the single digits and international stocks produced losses in the double digits. Most were not alarmingly negative returns but the breadth was indiscriminate. Not a single major stock index globally, including the U.S., was positive in 2018. China, Germany and Greece were all down over 20%.

The bull definitely lost its footing climbing the wall of worry during the quarter as geo-political issues, trade tiffs, personnel turnover in the WH, computerized selling, tax-loss harvesting, and a host of other factors overwhelmed positive news and solid economic fundamentals. In addition, the uncertainty alone caused by destabilized political, fiscal and monetary policies hampered investor confidence.

The consistent, and at times systematic, selling since the recent all-time highs in September can be blamed on dozens of factors, but not one in particular significantly stands out. If indeed the latest stock market weakness is stamped a "bear market" and the bull market ended on September 20th, it would be rather unique without one singular and significant factor to blame.

About one-third of all trading days in 2018 produced moves of more than +/- 1% and eight days had more than a 2% move (only eight days in all of 2017 had moves greater than 1%). Much of the volatility for the year occurred in the fourth quarter but volatility for 2018 overall was fairly normal by many measures.

The trade war with China is likely to be center-stage as the March 1st date narrows. Arguing with your bankers is never a good sign, but it appears the U.S. may have growing support from important trade partners in negotiations over a variety of issues with China. Progress on the trade front could provide lift for the stock market, but increasing political risk and a prolonged trade war could dampen investor interest.

We trust that smart, well-intended policy makers will negotiate, develop and implement prudent policies for the future, but confidence is weakening at the moment and this is being reflected in all markets.

While we recognize the current risk environment, we believe the opportunity for reward is attractive for stocks relative to other asset classes. By many measures, the valuations placed on earnings, cash flow, book value, etc. are compelling today given the indiscriminate selling during the previous quarter. The P/E ratio on the S&P 500 is less than it has been in half a decade and dividend yields are attractive relative to bonds.

Given current market conditions and our reliance on long term fundamentals of investing and strategy, we do not recommend modifying long term investment plans unless the volatility or performance of an investment portfolio is, among many other factors, affecting sleep, marriage, or other relationships….or if there is something else significant we should know.

BOND MARKET REVIEW

And the winners for 2018 Investment of the Year are……Cash and Gas…......(neither are technically bonds, but we don't have a commodity section). Natural gas was the biggest winner for 2018 by a landslide up over 30%! Cash and cash alternatives came in a very distant second place with muted returns of typically less than 2%.

For the first time in a long time, cash, treasuries, and CD's outperformed nearly all asset classes including stocks, bonds, and alternatives. The chances of this happening are slim, but it happened in 2018. During the quarter, interest rates fell significantly with the ten-year treasury moving from 3.06% to 2.69%. The risk-off strategy employed during the quarter had a significant impact. Interest rate and credit spreads remain tight meaning bond investors do not get paid much for assuming credit risk in riskier bonds or buying longer term bonds.

Flattening yield curves don't always signal recessions but its predictive power is solid once it inverts. The yield curve has not yet inverted despite popular belief.

We continue to believe maintaining a short to intermediate term structure for bond holdings could be an appropriate strategy to managing interest rate risk. Our CD rates are very competitive.

S&P 500 10% DOWN QUARTERS POST WWII

Since WWII, there have been 19 other quarters during which the S&P 500 lost more than 10%. The next quarter produced an average return of about 5% and a positive return 79% of the time. The next year produced an average return of about 16% and a positive return 74% of the time. After the last quarter, many investors would be happy with one of those averages.

2019 RETIREMENT PLAN LIMIT INCREASES

Retirement plan contribution limits have increased across the board for 2019. We suggest that you evaluate your level of savings and adjust accordingly. The only amounts that did not change are catch-up contribution limits (*).

Traditional/Roth IRA Contribution Limit	$ 6,000
Traditional/Roth IRA Catch-up Contribution*	$ 1,000
401k/403(b)457 Elective Deferrals	$ 19,000
Catch-up Contribution Limit*	$ 6,000
Annual Defined Contribution Limit	$ 56,000
Annual Compensation Limit	$280,000
Highly Compensated Employees	$125,000
Key Employees	$180,000
Social Security Wage Base	$132,900
Defined Benefit Annual Benefit Maximum	$225,000
SIMPLE Employee Deferrals	$ 13,000
SIMPLE Catch-up Deferral*	$ 3,000

Health savings account contribution limits have also increased to $3,500 for individuals and $7,000 for families in 2019.