Yesterday, the Federal Reserve increased interest rates by ¼%, as we expected. In our opinion, the reason the stock market fell yesterday, and again today, is confusion over Federal Reserve Chairman Powell's press conference comment about next year.

Positive: Specifically, Powell said the Federal Reserve will be "data dependent." This is a good thing, as we would want the Federal Reserve to make interest rate decisions based on the strength/weakness of the economy.

Negative: Chairman Powell said he expects the Federal Reserve will increase interest rates two more times in 2019.

Maybe we're reading into this too much, but we (and probably most investors) have a hard time reconciling the two statements. If the Fed is truly data dependent, then how does it know that it expects to hike two more times next year? Why didn't they just say they would raise rates by ¼% in December, and then say they will base future actions on the health of the economy? For the life of us, we just can't understand why the Federal Reserve can't learn to speak without ambiguity.

On December 19, Raymond James' Chief Equity Strategist, Jeff Saut, wrote (attached) why he thinks stocks are finishing the year so weak:

1. Approximately 144 hedge funds, which are available only to certain ultra-high net worth investors, are shutting their doors. (We never drank the hedge fund cool aid.) Investors are only allowed to withdraw their money once a year, and that time is now. Because of poor performance and very high fees, investors are selling out. These very large hedge funds are forced to sell trillions of dollars of equities to meet redemptions, and do not have new cash to buy.
2. Investors are selling investments on which they've lost money, to take the tax loss.
3. Investors are selling out of stock exchange traded funds (ETFs) and mutual funds because they're afraid.
4. Speculation that Mueller may have the goods on President Trump. Let's just say that President Trump were to be impeached. Vice President Pence would take over. In our opinion, that would be ideal for the stock market. If you recall last week's Oval Office meeting with President Trump,

Rep. Pelosi and Senator Schumer.  To us, the only calm person in the room was VP Pence.

We are also attaching PIMCO's December Market Update.  While the people are PIMCO are among the brightest, and have an excellent track record, they need to learn to write in layman's terms, and realize not everyone has a Ph.D. in Economics.  However, on page 3 of the attachment, they give a decent summary, and here are some excerpts.  To us, these expectations are positives.

1. PIMCO expects world GDP growth to slow somewhat but remain above-trend at 2.75% – 3.25% in 2019.
2. PIIMCO expects inflation globally to fall to 1.75% − 2.25% from about 2.3%.
3. In the U.S., after an expansion of close to 3% in 2018, PIMCO looks for growth to slow to a below-consensus 2.0% – 2.5% range in 2019.
4. Headline inflation looks set to drop sharply over the next several months.
5. For the eurozone, PIMCO expects growth to slow to a below-consensus 1.0% – 1.5% in 2019 from close to 2% in 2018.
6. In the U.K., PIMCO expects real growth in the range of 1.25% – 1.75% in 2019
7. Japan's GDP growth is expected to be moderate at 0.75% – 1.25% in 2019
8. In China, PIMCO expects 2019 growth to slow to the middle of a 5.5% – 6.5% range

Remember Warren Buffet's famous quote to be "Fearful when others are greedy, and greedy when others are fearful."  "Buy low, sell high" sure sounds like common sense, but human beings' fight or flight instinct usually causes the opposite behavior.  That's where we come in.  We will swallow hard and proceed with portfolio rebalancing, as planned.

As always, if you have any questions or concerns, please don't hesitate to call.

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