Our 2018 Economic Outlook, which we presented to our clients last January/February, and which is available on our website www.fisettefinancial.com, was accurate, with the exception of the fact that we expected the U.S. dollar to weaken; it strengthened significantly. This hurt our exposure to international stocks and bonds, because as the dollar strengthens, other currencies, such as the Euro, Yen, Peso, Rupee, etc. fall.

The problem with making stock market predictions is that you can get the economic outlook correct, but the stock market does not necessarily react accordingly… so went 2018. You would think that with such a great economy as we saw in 2018, we would have seen the stock market rise. Instead, it started out the year great, lost all January's gains in February, recovered to breakeven and moved sideways through June, rose nicely July – September, and then fell sharply October – December. In the long run, however, stocks are valued on earnings and interest rates. Earnings are strong and expected to continue growing in 2019, albeit slower than in 2018. Long-term interest rates are well off their highs, and we expect them to remain subdued.

Raymond James just released its 2019 Equity Market Outlook, which is located at https://www.raymondjames.com/fisettefinancial/pdfs/rj-2019-equity-market-outlook.pdf . They assign the following probabilities for the S&P 500 in 2019:

- A 65% probability for a 16.1% gain (base case)
- A 5% probability for a 29.9% gain (bull case)
- A 30% probability for a 5% loss (bear case)

Unless something drastic happens in the next week, 2018 is going to be our worst year since 2008. As we've said over and over, these declines come out of the blue. Our concern is not that we are wrong in our projections; rather, it is that one or more of our clients throws in the towel out of fear, and finds he/she sold at the bottom. We learned a lot of lessons in 2008/2009, the most important of which is not to underestimate the U.S. economy and businesses, and not to panic when it seems darkest. Never forget that after the S&P 500's 37% loss in 2008, it rose 26.46% in 2009 and 13.69% in 2010. Imagine if you had sold out at the bottom in March 2009. One of the benefits of getting older is wisdom; we learn from our experiences and mistakes. Let's all learn from 2008 that it's darkest before dawn, and stay the course.

With the market being down so much, when we rebalanced our portfolios last Friday, we were able to purchase what we believe to be some very impressive dividend yields. We're confident that when we look back later next year, we'll see our reallocation last week was fortuitous.

We appreciate your trust. Please don't hesitate to call us with any questions or concerns. Merry Christmas and Happy New Year.

Michael & Erica

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