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Market Headwinds Cause Historic Volatility

A decade of consecutive positive annual returns from the S&P 500 ended in 2018. In the final three months of the year the S&P 500 registered its worst quarterly performance in seven years and ended 2018 with a negative annual total return for the first time since 2008.

Contrary to most of the headlines we saw during the last three months, the sharp declines in stocks weren't directly driven by trade wars or ongoing political dramas, all of which were with us for the majority of 2018. Instead, the break down in stocks was driven by a trifecta of classic economic and market concerns emanating from underwhelming corporate earnings guidance, suddenly lackluster economic growth, and disappointment towards Federal Reserve monetary policy. Additionally there was also pressure from atypical sources – tax loss harvesting and hedge fund redemptions.

Stocks initially dropped in early October as the third-quarter corporate earnings season disappointed markets. While most companies beat consensus estimates, as they often do, profit warnings from select multinational and industrial firms such as PPG Industries (PPG) and FedEx (FDX) highlighted growing concerns from analysts about peak earnings growth for U.S. corporations. That rising concern was reflected by the market's performance during the heart of the third-quarter reporting season, as the S&P 500 declined 6.84% in October.

After a respite from selling in November that saw stocks bounce back from the October losses, earnings concerns were compounded in December by suddenly disappointing economic readings. In early December, multiple economic indicators including manufacturing surveys and the November jobs report missed Wall Street consensus estimates, adding the potential of slowing economic growth to the list of headwinds on stocks.

Finally, uncertainty regarding U.S. monetary policy in the wake of the December rate hike by the Federal Reserve added yet another source of concern for investors, and that additional unknown caused a massive spike in market volatility in late December. Specifically, the Fed increased interest rates for the fourth time in 2018, despite the declines in stocks and wavering economic data, and signaled it expects to increase rates

two more times in 2019. That policy decision, which was more restrictive than investors were hoping for, caused stocks to plunge as the major equity indexes dropped to fresh 52-week lows during the final two weeks of December. Markets did bounce modestly during the final days of 2018 to finish off the worst levels of the year, but still solidly negative on an annual basis.

Despite the legitimate concerns about economic growth, earnings and Fed policy, the news in the fourth quarter wasn't all bad.

First, the U.S. and China agreed to a temporary trade war "truce" and began an intense, 90-day negotiation period aimed at ending the trade war.

Second, the European Union and the Italian government reached a compromise on Italy's proposed 2019 budget that satisfied European Commission rules, thereby avoiding a political showdown.

Lastly, most major indicators of U.S. economic growth, while exhibiting a loss of momentum, remained in solidly positive territory, meaning the economy is still growing (albeit, potentially at a slower pace). The November Employment Situation Report showed positive jobs growth and an unemployment rate under 4% while regional manufacturing surveys remained in positive territory.

In sum, 2018 was a very difficult year in the markets and for investors. Not only did most major stock indices post a negative full-year total return for the first time since 2008, but the declines came with two episodes of intense, confidence-shaking volatility in the first and fourth quarters.

But, it's important to remember that while volatile markets can and will occur, just like they did most recently in 2011 and 2015, the fundamental drivers of the multi-year rise in stocks remain generally in place, and that's important context to remember as we begin a new quarter and calendar year.

4th Quarter and Full Year 2018 Performance Review

The fourth quarter of 2018 was the worst quarter in years as the S&P 500 saw its biggest quarterly decline since Q3 of 2011. Of the four major stock indices (S&P 500, Dow Industrials, Nasdaq, Russell 2000) only the tech heavy Nasdaq managed a positive total return in 2018.

All market capitalizations saw a negative return in Q4 and for the full year of 2018. However, on a relative basis, large caps outperformed small caps over the course of the year and especially in the fourth quarter as investors' concerns shifted from trade to economic growth during the final months of the year.

From a style standpoint, value outperformed growth in Q4 but growth handily outperformed value on a full-year basis, thanks predominantly to relative outperformance of information technology and consumer discretionary stocks, however both growth and value styles finished the fourth quarter and the full year with negative total returns.

Looking at sector performance, most major market sectors ended the fourth quarter with a decidedly negative total return, although utilities were the exception as the sector closed with a modest positive total return in Q4. Generally speaking, market sectors that are historically more sensitive to changes in economic growth

underperformed in 2018, most notably in the fourth quarter. Energy, basic materials, industrial and financial sectors all declined sharply in Q4 and finished with decidedly negative annual returns. Less economically sensitive sectors such as utilities, healthcare and consumer staples saw more mixed annual performance. Healthcare was the best performing S&P 500 market sector for 2018, while utilities also finished the year with a small positive return.

As previously mentioned, two sector outliers were information technology and consumer discretionary. Both sectors declined sharply in the fourth quarter, but thanks to strong performance earlier in the year, consumer discretionary finished 2018 with a small positive return, while information technology relatively outperformed the S&P 500.

Looking overseas, 2018 was a very difficult and disappointing year for foreign markets as they faced multiple headwinds which negatively impacted returns including political uncertainty via Brexit, lackluster economic growth in Japan and China, and emerging market political stress in Turkey (especially during the third quarter). Most foreign markets generally tracked the S&P 500 during the fourth quarter, but badly underperformed on an annual basis.

More specifically, foreign developed markets saw similar declines to the S&P 500 during the fourth quarter, but finished 2018 with substantial losses given the economic and market headwinds.

Meanwhile, emerging markets badly underperformed U.S. stocks through the first three quarters of 2018, but relatively outperformed in the fourth quarter. Some political and trade-related clarity via the calming of the Turkish currency crisis and the temporary U.S.-China trade truce helped contain emerging market declines in this most-recent quarter.

Switching to the fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) saw positive returns during the fourth quarter, and that helped produce a fractionally positive total return in 2018. Stock market volatility combined with falling inflation metrics helped bonds rally during the fourth quarter.

Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter-durations during the fourth quarter, which was a reversal from the previous two quarters. But, in 2018, shorter-duration bonds still outperformed, which is typical when the Fed is raising interest rates.

Corporate bonds, both investment grade and high yield, fell during the fourth quarter. High-yield bonds bore the brunt of the selling and finished the quarter with substantial losses. For full-year 2018, both investment grade and high-yield bonds closed with decidedly negative total returns, as concerns about slowing economic growth and corporate earnings weighed on both bond classes.

What We See Ahead

Investors begin 2019 reeling from the worst quarter in years and with markets facing multiple headwinds including an uncertain outlook for corporate earnings, potentially slowing economic growth, and a lack of clarity on Fed policy. Yet, at the same time, these concerns have been at least partially acknowledged by the

markets as the major U.S. stock indices begin 2019 more than 10% off their 2018 highs, as expectations for earnings and economic growth have been reduced.

At a minimum, we can expect continued volatility in stock, bond and commodity markets in the coming months. And, whether the markets continue the fourth-quarter declines or rebound will depend largely on the resolution of those three uncertainties facing markets: Earnings, economic growth and Fed policy.

Regarding earnings, the bulk of the fourth-quarter 2018 earnings results will be released this month, so within the next few weeks we should learn whether U.S. corporate results have stabilized, or whether the disappointing guidance we saw from companies in Q3 continued.

Economically, investors will be focused on widely followed economic reports (including the December Employment Situation Report, ISM Manufacturing PMI, Retail Sales, Core PCE Price Index) to determine whether U.S. economic growth has indeed peaked.

From a Fed policy standpoint, the next Fed meeting occurs at the end of January, but there's an important change in Fed procedure to consider in 2019. Fed Chair Jerome Powell will hold a press conference after each meeting in 2019 (the change was announced well before the recent market volatility). That additional, regular communication should afford the chairman the opportunity to communicate more effectively with investors and potentially resolve uncertainty regarding Fed policy.

Finally, we begin 2019 with numerous geopolitical situations to watch. First, the U.S.-China trade talks are ongoing and there remains hope that the two sides will reach an agreement to reduce existing tariffs before the 90-day negotiation period expires. In Europe, Brexit remains unsettled, although negotiations among Britain's largest political parties continues in an effort to approve the Brexit agreement with Europe.

Bottom line, this is an environment that requires vigilance and heightened focus on financial market moves, economic news and political developments.

However, while we can expect volatility to continue, especially early in 2019, it's important to remember that the last two episodes of similar volatility (2011 and 2015) proved to be long-term buying opportunities.

Past performance is not indicative of future results, but history has shown that a long-term approach combined with a well-designed and well-executed investment strategy can overcome periods of heightened volatility, market corrections, and even bear markets.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility like we experienced in the fourth quarter is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan. We've worked with you to establish a personal allocation target based on your financial position, risk tolerance, and investment timeline. Therefore, we aim to take a diversified and disciplined approach with a clear focus on longer-term goals.

We understand that volatile markets are both unnerving and stressful, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this difficult market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Enclosure #1 – Our first enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference.

Enclosure #2 – Our second enclosure is a discussion on the possibility of a looming recession. Brian Wesbury from First Trust Advisors provides a look at some statistical points and weighs in with his thoughts on the chances of a near-term recession.

Enclosure #3 – Our third enclosure is a breakdown of the meanings between growth and value. We believe many conversations over the next year will involve making a selection regarding weighting of growth vs. value. We thought it would be a good idea, especially for our less seasoned investors, to get a breakdown of what the terms truly mean.

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Enclosure #2 : Information was developed by First Trust, an independent third party. The opinions of Brian Wesbury are independent from and not necessarily those of RJFS or Raymond James.

*Prices of DJIA and NASDAQ as of 10/15/2018

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JANUARY 2019

THEMES



International Outlook:

The underperformance of most foreign markets was largely due to economic growth, currency movements, and trade talk uncertainties. Simply put, U.S. economic growth surprised on the upside whilst other major economies did not, the dollar appreciated against most other currencies, and concerns about essential future trading relations impacted the more export-focused European and emerging markets last year. Can a new year bring new hope? In order for international markets to gain momentum over the U.S. in 2019, these concerns need to be quelled.

Equity Outlook:

As we begin 2019, the U.S. equity markets are under pressure due to uncertainty regarding trade talks with China, concern over the sustainability of U.S. economic growth, the path of the Federal Reserve's tightening cycle, and moderating economic growth abroad. We have a positive bias to equities over the next 12 months and believe the current pullback is overdone for the short term. We view valuation as attractive and expect supportive economic and earnings growth.

Economic Outlook:

While fiscal stimulus (tax cuts and government spending) should provide support in the near term, labor market conditions will become more binding, Federal Reserve policy is set to become tighter, and trade policy adds uncertainty. Economic growth was strong in 2018, but beyond a sustainable pace. We know this because the unemployment rate fell, which clearly can't go on forever. The transition to a slower, more sustainable pace of growth may be a challenge for investors, as such transitions are rarely smooth. However, the economic expansion should continue.

For more information, refer to the full *Investment Strategy Quarterly*.

Economic Snapshot

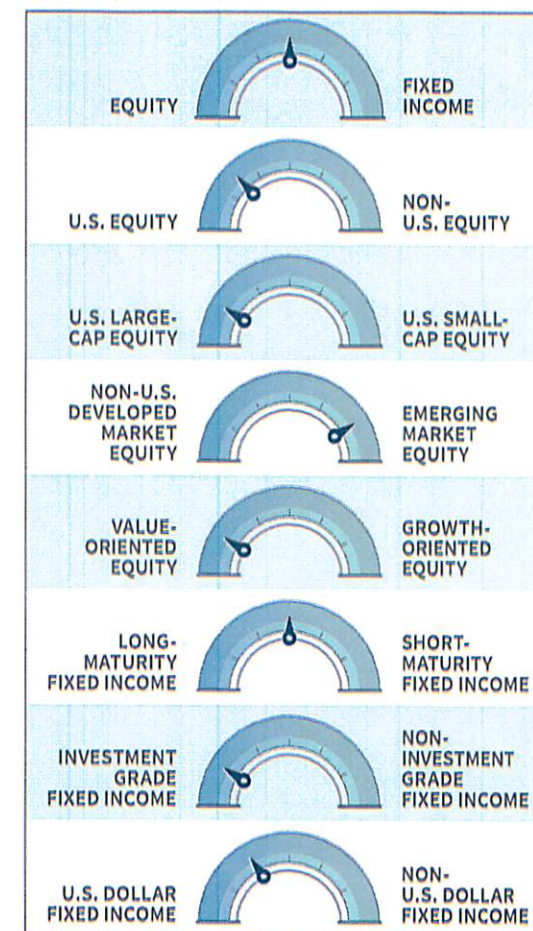
Economic Indicator

FAVORABLE	GROWTH
	EMPLOYMENT
	CONSUMER SPENDING
	INFLATION
	THE DOLLAR
NEUTRAL	BUSINESS INVESTMENT
	MANUFACTURING
	HOUSING AND CONSTRUCTION
	MONETARY POLICY
	LONG-TERM INTEREST RATES
	FISCAL POLICY
	REST OF THE WORLD

From Scott Brown, Ph.D.,
Chief Economist, Equity Research

Tactical Outlook

(3-9 months)



The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

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INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JANUARY 2019

Capital Markets Snapshot

EQUITY	AS OF 12/31/2018*	4Q 2018 RETURN**	12-MONTH RETURN
DOW JONES INDUSTRIAL AVERAGE	23,327.46	-11.31%	-3.48%
S&P 500 INDEX	2,506.85	-13.52%	-4.38%
NASDAQ COMPOSITE INDEX	6,635.28	-17.29%	-2.84%
MSCI EAFE INDEX	1,719.88	-12.54%	-13.79%
RATES	AS OF 12/31/2018	AS OF 9/30/2018	AS OF 12/31/2017
FED FUNDS TARGET RANGE	2.25-2.50	2.00-2.25	1.25-1.50
3-MONTH LIBOR	2.81	2.40	1.69
2-YEAR TREASURY	2.52	2.81	1.91
10-YEAR TREASURY	2.69	3.06	2.41
30-YEAR MORTGAGE	4.51	4.57	3.85
PRIME RATE	5.50	5.25	4.50
COMMODITIES	AS OF 12/31/2018*	4Q 2018 RETURN**	12-MONTH RETURN
GOLD	\$1,279.00	-38.12%	-2.55%
CRUDE OIL	\$45.41	7.73%	-25.21%

*Price Level
**Total Return

Sector Snapshot

	SECTOR	S&P WEIGHT
OVERWEIGHT	INFORMATION TECHNOLOGY	20.3%
	HEALTH CARE	15.7%
	INDUSTRIALS	9.1%
	ENERGY	5.5%
EQUAL WEIGHT	FINANCIALS	12.9%
	COMMUNICATION SERVICES	10.0%
	CONSUMER DISCRETIONARY	9.9%
UNDERWEIGHT	CONSUMER STAPLES	7.6%
	UTILITIES	3.3%
	REAL ESTATE	3.0%
	MATERIALS	2.6%

DISCLOSURE:

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No Sign of Recession

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Senior Economist

Talk about destroying a narrative. On Friday, the Labor Department reported 312,000 new jobs in December, with an additional 58,000 from upward revisions to prior months. Recession talk got crushed.

The Pouting Pundits of Pessimism claim jobs are a lagging indicator, but the pace of payroll growth starts declining well before a recession starts. In the twelve months ending in June 1989 nonfarm payrolls increased a robust 225,000 per month. In the next twelve months payrolls rose a softer 153,000 per month and then a recession officially started in July 1990.

A similar pattern happened before the next two recessions, as well. In the twelve months ending in February 2000, payrolls rose 250,000 per month before decelerating to 137,000 per month in the next twelve months. A recession started in March 2001.

In the twelve months ending in November 2006, payrolls rose 173,000 per month and then slipped to 101,000 per month in the following twelve months. After the financial crisis started, the National Bureau of Economic Research dated the start of the Great Recession to December 2007.

By contrast, nonfarm payrolls are up an average of 220,000 in the past twelve months versus a gain of 182,000 per month in the twelve months before that. On a quarterly basis, from Q2-2017 to Q4-2018, job growth has been 473,000, 553,000, 556,000, 632,000, 634,000, 623,000 and 670,000. In other words, no sign of the kind of slowdown in job creation that normally precedes a recession; instead, job creation appears to be accelerating.

Yes, the unemployment rate did rise to 3.9% in December from 3.7% in November, but that's because the growth of the labor force was a healthy 419,000. A slower decline in the unemployment rate combined with faster economic growth signals that potential GDP growth has increased, exactly the response we would expect with lower marginal tax rates and deregulation.

If the partial government shutdown continues into the employment survey week, the unemployment rate may rise in

January, but that'll be temporary, unwinding when the political showdown ends.

Perhaps the best part of Friday's report was that workers' wages are accelerating. Average hourly earnings rose 0.4% in December and are up 3.2% from a year ago. And that's excluding extra earnings from irregular bonuses and commissions like those paid out after the tax cut was passed.

Another piece of hard data and good news last week also undermines the recession theory: automakers reported that Americans bought cars and light trucks at a 17.55 million annual rate in December, the fastest pace since November 2017, when sales were still surging in the aftermath of Hurricanes Harvey and Irma. We don't expect auto sales to stay this strong, but recent strength shows consumers are not under stress.

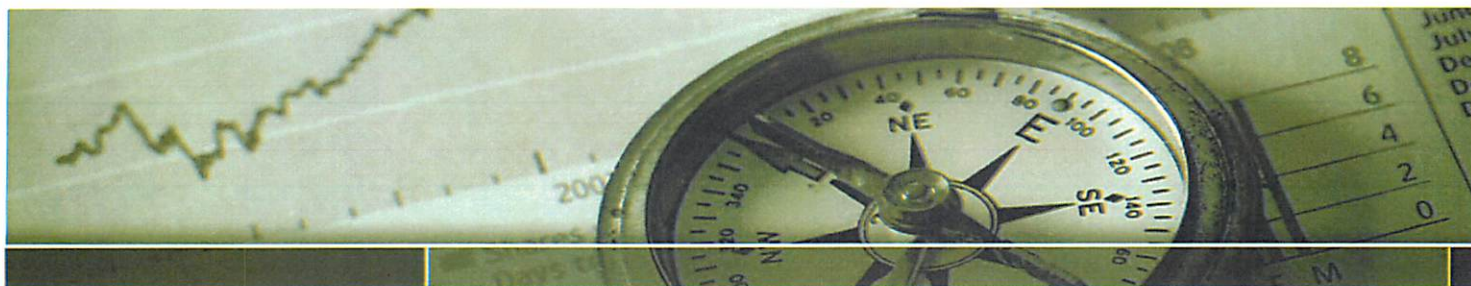
Yes, the ISM Manufacturing report for December fell short of consensus expectations, but since this is a survey, it's easier to pick up temporary noise, as human emotion can be a factor over the short term. Still, even at 54.1, it still shows healthy expansion and is well above recession territory. The last three recessions started with the ISM at 46.6 (July 1990), 43.1 (March 2001), and 50.1 (December 2007). In the past year manufacturing jobs are up 24,000 per month, as opposed to the contraction in these jobs usually seen before a recession starts.

Monetary policy is not tight and is unlikely to be anytime soon. Companies are still adapting to lower tax rates, full expensing, and less regulation. Consumers will be surprised with their larger than anticipated tax refunds. A trade deal has been struck with Mexico and Canada and negotiations with Europe and Japan should result in lower tariffs on US exports. The sore spot is China, but the US has lots of leverage given the large trade deficit.

At some point the US will have a recession. But none of the data we're looking at suggests a recession will start anytime in the near future. In turn, we think profits will continue to grow and that even at the current level of profits, US equities remain cheap.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-7 / 9:00 am	ISM Services Index - Dec	58.5	58.5	57.6	60.7
1-8 / 7:30 am	Trade Balance - Nov	-\$54.0	-\$53.6		-\$55.5
2:00 pm	Consumer Credit - Nov	\$16.0	\$12.7		\$25.4
1-10 / 7:30 am	Initial Claims, Week of 01/05/19	225K	224K		231K
1-11 / 7:30 am	CPI - Dec	-0.1%	-0.2%		0.0%
7:30 am	Core CPI - Dec	+0.2%	+0.2%		+0.2%

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.



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Growth vs. Value: What's the Difference?



There is no guarantee that any investment strategy will be successful; all investing involves risk, including the possible loss of principal.

With the wide variety of stocks in the market, figuring out which ones you want to invest in can be a challenging task. Many investors feel it's useful to have a system for finding stocks that might be worth buying, deciding what price to pay, and identifying when a stock should be sold. Bull markets — periods in which prices as a group tend to rise — and bear markets — periods of declining prices — can lead investors to make irrational choices. Having objective criteria for buying and selling can help you avoid emotional decision-making.

Even if you don't want to select stocks yourself — and many people would much prefer to have a professional do the work of researching specific investments — it can be helpful to understand the concepts that professionals use in evaluating and buying stocks.

There are generally two schools of thought about how to choose stocks that may be worth investing in. Value investors generally buy stocks that appear to be bargains relative to the company's intrinsic worth. Growth investors prefer companies that are growing quickly, and are less concerned with undervalued companies than with finding companies and industries that have the greatest potential for appreciation in share price. Either approach can help you better understand just what you're buying — and why — when you choose a stock for your portfolio.

Value Stocks	Growth Stocks
Relatively low P/E ratio	High P/E ratio
Low price-to-book ratio	High price-to-book ratio
Relatively slow earnings growth	Rapid earnings growth
High dividend yield	Low or no dividend yield
Sluggish sales growth	Rapid sales growth

Value investing

Value investors look for stocks with share prices that don't fully reflect the value of the companies, and that

are effectively trading at a discount to their true worth. A stock can have a low valuation for many reasons. The company may be struggling with business challenges such as legal problems, management difficulties, or tough competition. It might be in an industry that is currently out of favor with investors. It may be having difficulty expanding. It may have fallen on hard times. Or it could simply have been overlooked by other investors.

A value investor believes that eventually the share price will rise to reflect what he or she perceives as the stock's fair value. Value investing takes into account a company's prospects, but is equally focused on whether it's a good buy. A stock's price-earnings (P/E) ratio — its share price divided by its earnings per share — is of particular interest to a value investor, as are the price-to-sales ratio, the dividend yield, the price-to-book ratio, and the rate of sales growth.

Value-oriented data

Here are some of the questions a value investor might ask about a company:

- What would the company be worth if all its assets were sold?
- Does the company have hidden assets the market is ignoring?
- What would the business be worth if another company acquired it?
- Does the company have intangible assets, such as a high level of brand-name recognition, strong new management, or dominance in its industry?
- Is the company on the verge of a turnaround?

Contrarians: marching to a different drummer

A contrarian investor is one example of a value investor. Contrarians believe that the best way to invest is to buy when no one else wants to, or to focus on stocks or industries that are temporarily out of favor with the market.

Two research types: fundamentals vs. price history

Whether the growth or value approach appeals to you — and you may prefer a combination of the two — you'll need criteria for implementing it. Many investors prefer to analyze fundamentals (data about a company's operations) to determine just what its shares are worth given its potential. Buy-and-hold investors tend to focus on fundamental data, which doesn't change as quickly as price charts.

Technical analysts would rather focus on a company's stock price. They attempt to identify trading patterns on charts that show price history or trading volume, believing that those patterns can help them identify price trends. Technical analysis also is used to analyze trends in markets as a whole. It requires more day-to-day attention than does fundamental analysis. Many investors like to combine both types of research.

The challenge for any value investor, of course, is figuring out how to tell the difference between a company that is undervalued and one whose stock price is low for good reason. Value investors who do their own stock research typically comb the company's financial reports, looking for clues about the company's management, operations, products, and services.

Growth investing

A growth-oriented investor looks for companies that are expanding rapidly. Stocks of newer companies in emerging industries are often especially attractive to growth investors because of their greater potential for expansion and price appreciation despite the higher risks involved. A growth investor would give more weight to increases in a stock's sales per share or earnings per share (EPS) than to its P/E ratio, which may be irrelevant for a company that has yet to produce any meaningful profits. However, some growth investors are more sensitive to a stock's valuation and look for what's called "Growth At A Reasonable Price" (GARP). A growth investor's challenge is to avoid overpaying for a stock in anticipation of earnings that eventually prove disappointing.

Growth-oriented data

A growth investor might ask some of these questions about a stock:

- Has the stock's price been rising recently?
- Is the stock reaching new highs?
- Are sales and earnings per share accelerating from quarter to quarter and year to year?
- Is the volume of trading in the stock rising or falling?
- Is there a recent or impending announcement from or about the company that might generate investor interest?
- Is the industry going up as a whole?

Momentum investing: growth to the max

A momentum investor generally looks not just for growth but for accelerating growth that is attracting a lot of investors and causing the share price to rise. Momentum investors believe you should buy a stock only when earnings growth is accelerating and the price is moving up. They often buy even when a stock is richly valued, assuming that the stock's price will go even higher. If a stock falls, momentum theory suggests that you sell it quickly to prevent further losses, then buy more of what's working.

Some momentum investors may hold a stock for only a few minutes or hours then sell before the market closes that day. Momentum investing obviously requires frequent monitoring of the fluctuations in each of your stock holdings, however. A momentum strategy is best suited to investors who are prepared to invest the time necessary to be aware of those price changes. The risk of loss from this type of trading strategy can be substantial. You should therefore consider whether such a strategy is suitable for you based on your individual circumstances and financial resources.

Why understand investing styles?

Growth stocks and value stocks often alternate in popularity. One style may be favored for a while but then give way to the other. Also, a company can be a growth stock at one point and later become a value stock. Some investors buy both types, so their portfolio has the potential to benefit regardless of which is doing better at any given time. Investing based on data rather than stock tips or guesswork can not only assist you as you evaluate a possible purchase; it also can help you decide when to sell because your reasons for buying are no longer valid.

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