HIGHTOWER
RDM FINANCIAL GROUP

MARKET UPDATE
JANUARY 9, 2019

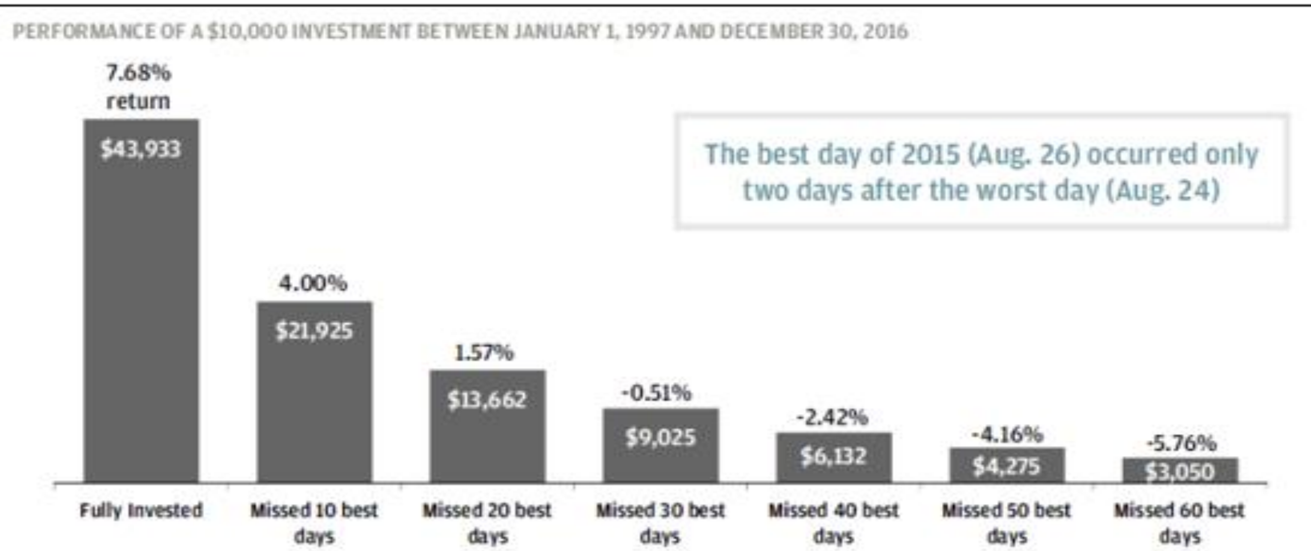
Over the past few months equity market volatility has picked up coming off of very low levels in 2017. For reference, the S & P 500 experienced a rise or fall of 1% 51 times per year from 1950 to 2018 but experienced a rise or fall of 1% just 8 times in 2017 (source: Strategas Research). Recent daily swings in the market are enough to turn your stomach. Unfortunately (based on market history) they are fairly normal and something investors will need to get more used to. One way to think of market volatility is it represents the price investors must pay for stock market returns that have historically (over long periods of time) beaten the returns on other major asset classes like bonds and cash.

We understand that at times like these, it may be a difficult thing to keep emotions in check. However, we encourage clients to step back, take a breath and try and keep recent market swings in perspective. Asset allocation is designed to work over the long term to help you achieve your long-term financial goals. Feel free to call us and discuss any changes that have taken place that may prompt us to review and update your asset allocation.

One of the things we tried to communicate at our year-end holiday events with RDM clients is that nobody can consistently and accurately time the stock market. In the chart referenced on page 2, for example (which highlights the performance of a $10,000 investment from 1997 to 2016 – source: JP Morgan Asset Management), the data indicates that if you missed out on just a few of the best days during this period, overall investment returns were reduced considerably. The thing is, nobody really knows when those best days will be.

Over the past couple of weeks, for example, we've had a number of days which have surprised investors on the upside. The day after Christmas (on December 26th), the Dow Jones Industrial Average soared by 1,086 points (the largest point gain ever but not the largest % gain) and last Friday equity markets gained another 750 points. News that China reduced reserve requirements by 100 basis points (i.e. 1%), the U.S. generated another solid employment report, and Fed Chairman Powell commented that the Federal Reserve bank will be "patient" in the year ahead, all helped propel the markets higher this past Friday. None of this news was expected and thus took bearish investors by surprise.

In 2018, U.S. large cap markets declined in the mid-single digits, U.S. small cap stocks fell in the low double digits while overseas markets (both developed and emerging markets) both declined by more than 10%. These are certainly not the kind of returns we had hoped for when 2018 started. However, it's also important to point out that last year's stock



This chart is for illustrative purposes only and does not represent the performance of any investment or group of investments.
Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2016.

market decline came on the heels of nine straight years of positive market gains for the S & P 500 (on a total return basis).

Looking back at market returns since 1928 provides a bit of positive news. Following all negative years in the market (from 1928 to 2018 - source: Piper Jaffrey), equities (based on the S & P 500) generated a positive average gain of 9.2% and advanced 65% of the time. We find these statistics encouraging but acknowledge that ultimately, it's business fundamentals (i.e. things like sales and corporate profits) that really matter.

Market bottoms typically occur when equity markets stop going down on bad news. We can’t be sure that “the lows” are in. A re-test at some point is certainly possible and would be absolutely normal based on past market cycles (hopefully a re-test would include less selling intensity, a smaller number of 52-week lows, and lower volatility). In summary, the best course of action is probably to fight the impulse to sell and instead continue to focus on staying invested in the appropriate asset allocation.

We believe that maintaining the proper risk adjusted allocation (especially since we believe business fundamentals remain relatively positive in the U.S.) should help you stay on track towards meeting your long-term investment goals. From our perspective, 2019 is likely to be a year of moderate economic growth. Still positive, but less robust than in 2018. From an investment perspective, we are constantly looking to see if there are portfolio changes we should make to either take advantage of more attractive investment opportunities or lighten up on areas of the market that look overvalued or are demonstrating weakness.

As always, if you have any questions please do not hesitate to reach out and give us a call.

Respectfully,

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Disclaimer:

S & P 500 - The *S&P 500 Index* tracks the performance of 500 large capitalization companies that trade on either the NYSE or NASDAQ Market.

Dow Jones - The Dow Jones Industrial Average is a *stock market index* that tracks the performance of 30 large capitalization, publicly owned companies based in the United States.

Russell 2000 Index - The *Russell 2000 Small Cap Index tracks the performance of the bottom 2,000* stocks in the *Russell* 3000 *Index*.

RDM Financial Group

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