

Newsletter January 2019

MARKET TRENDS 12/31/2018

US Stock Markets	Q4	YTD
S&P 500 Index	-13.5%	-4.4%
S&P MidCap 400 Index	-17.3%	-11.1%
Russell 2000 Index	-20.2%	-11.0%

Int'l Stock Markets	Q4	YTD
EAFE Index	-12.5%	-13.8%
Emerging Mkts Index	-7.5%	-14.6%

Fixed Income	Q4	YTD
Barclays Intermediate Gov't/Credit Bond Index	1.7%	0.9%
Barclays Capital Muni Bond 3 Year Index	1.1%	1.8%

Commodities	Q4	YTD
SPDR Gold Shares (NAV)	7.8%	-1.5%
Goldman Sachs Commodities	-22.9%	-13.8%

Real Estate	Q4	YTD
Dow Jones US REIT Index	-6.0%	-4.0%

Yields	12/31/2018	12/31/2017
6 Mo. US T-Bill	2.6%	1.5%
10 Yr UST	2.7%	2.4%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

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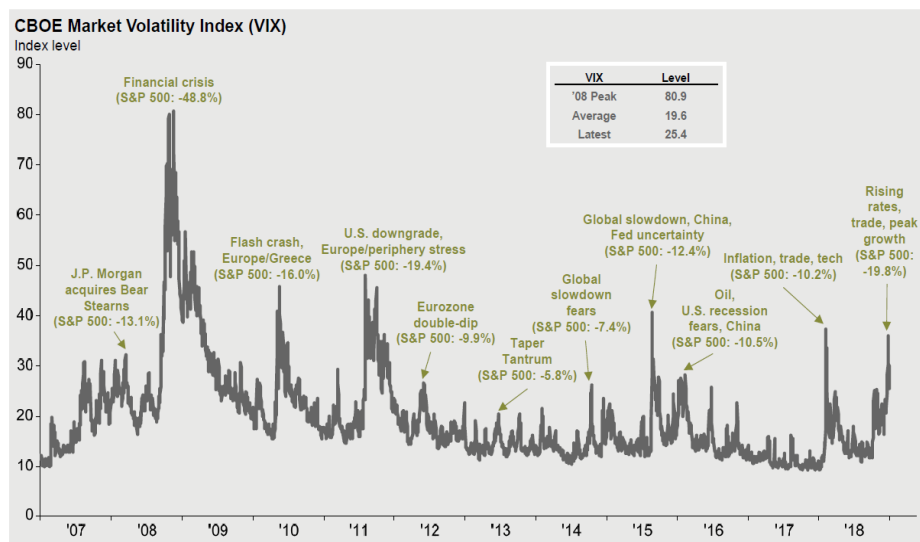
Stocks – is this a Bear Market and/or a Buying Opportunity?

Shorepoint believes that this is a buying opportunity and not the start of a bear market but a “normal” pullback as part of a secular bull market. Based on our assessment, we don't anticipate a domestic recession and are adding about 5% to equities in our client accounts. However, we will first consider your cash needs, risk tolerance, etc. before increasing equities. Please read on for more details!

Below you will find a variation of the missive we sent out just before Christmas. We believe the majority of the content still pertains, but we have adjusted and added additional comments and information.

The U.S. stock market hit all-time highs on September 20th. Since that time the market (S&P 500 Index) dropped almost 15% and finished 2018 down 4.4%. During this correction, over 70% of the stocks in the S&P 500 Index were down over 20% (traditional bear market territory) and the average stock was down 29%. Domestic mid-cap and small-cap indices finished down over 11% for the year while international, developed and emerging market, were down over 13%. Bonds slightly rebounded in fourth quarter with major indices barely in positive territory for the year.

As the following chart shows, volatility has been higher recently but is close to historical averages. While higher volatility can be unsettling, it can also provide investment opportunities that we hope to take advantage of.



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“...we don’t anticipate a domestic recession and are adding about 5% to equities...”

“...higher volatility can be unsettling, it can also provide investment opportunities...”

What Changed:

1. The Federal Reserve under Chairman Jerome Powell has expressed a conservative, hard money stance devoted to running off its balance sheet (still bloated from the 2007-2009 crisis) and raising interest rates in what investors fear is a weakening economic environment both domestically and internationally; Powell had not seemed to be phased by the falling equity market indices or the angry President. However, Powell’s recent remarks indicate a less hawkish stance.
2. Investors fear the damage wrought by the new US policy of initiating trade wars and tariffs that distort commerce and unsettle businesses. This is an evolving situation that we continue to monitor, and a resolution is critical stabilization for the markets.
3. The President said he will shut down the government if he doesn’t get funding for a border wall which has now become the longest government shutdown in our history.
4. Secretary of Defense Mattis resigned after the President announced he would pull troops out of Syria and Afghanistan without or against the Secretary’s recommendation.
5. Global growth remains anemic and has weakened most recently.
6. The US stock market, which was indicating more modest domestic growth in 2019, is now pointing to a major growth deceleration, if not a recession.
7. Technical factors and program trading seem to be driving irrational market price movements instead of fundamentals such as the economy, valuations and corporate earnings which remain solid.

Within this steep market correction, the seeds of recovery are present. How can you say that, Shorepoint? What is so good right now?

1. Corporate profits are still strong and the 2018 corporate tax cut will allow companies to use tax savings to fund research & development, capital spending, higher wages, stock buybacks and dividend increases.
2. Gas prices are low, a boost to consumer spending and cash flow.
3. Inflation remains subdued.
4. Tax rates are historically low.
5. Interest rates are still below historic averages.
6. Deregulating environment is conducive to economic and earnings growth.

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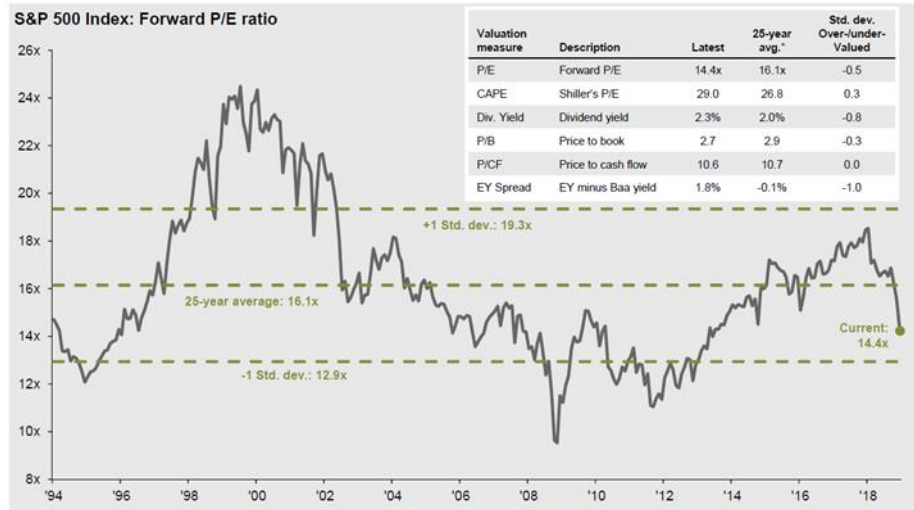
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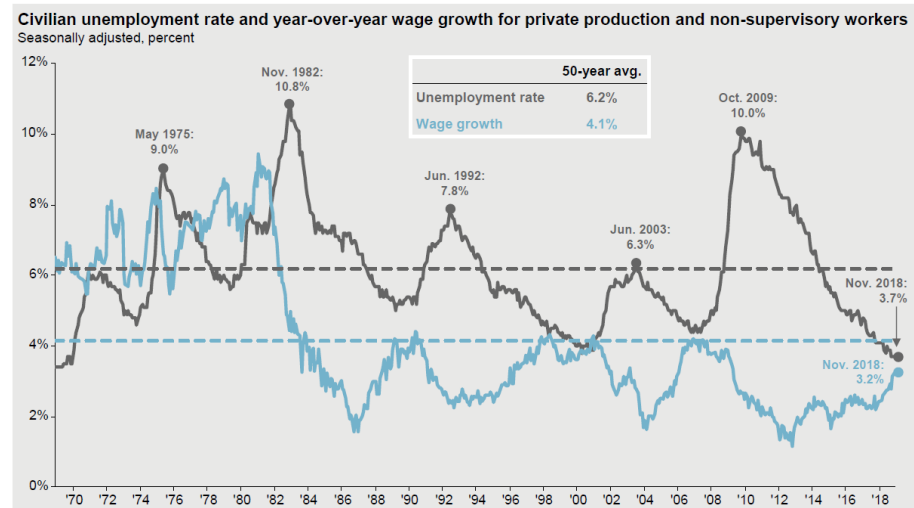
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- Valuation of the stock market is compelling; buy low, sell high. The S&P 500 Index price/earnings ratio is down from 17x to 14x.



- The unemployment rate is below 4%, the strongest labor market in decades with wage growth



What an investor should do:

- Stay calm; corrections are a normal part of equity markets. This is the second correction in 2018 after almost two years without a correction.
- Be patient; you are invested in a diversified portfolio - focus on the long term. After all, the S&P 500 Index has rebounded 10% since the December 2018 lows.

“Valuation of the stock market is compelling; buy low, sell high.”

“Adding to attractively valued, high quality companies and to international equities...”

“We are finding an increasing number of equity investment opportunities...”

“Investing portfolios for increased market volatility and focusing on companies with strong balance sheets and...sectors/stocks that may be temporarily...”

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- Our advice to clients who are in distribution mode and living off of the income of their portfolios is to try to tighten budgets for the foreseeable future until markets settle and return to growth mode.
- A best practice for clients in accumulation mode, who are still investing regularly in their portfolios, is to try to significantly increase what you are saving and investing in your retirement and investment accounts. Bear markets can be challenging, messy, even irrational, and they tend to go on for longer than we like, but they have almost always been excellent times to make money for long term investors.
- Contact Shorepoint anytime as needed to discuss.

Shorepoint’s Strategy

We are:

- Approaching current market conditions as a potential bear market within a secular bull market, which means that we want to take our portfolios from neutral to overweight in equities by adding approximately 5%; depending on each client’s objectives.
- Positioning accounts to weather these and future market volatility while keying in on clients’ risk profile and time horizon.
- Adding to attractively valued, high quality companies and to international equities which we feel are significantly undervalued after this correction. We are finding an increasing number of equity investment opportunities which is, and will be, reflected in increased activity in client portfolios.
- Investing portfolios for increased market volatility and focusing on companies with strong balance sheets and robust cash flow as well as sectors/stocks that may be temporarily out of favor such as energy, industrials and finance.
- Considering adding more to stocks if we experience further market pullbacks. However, we will also evaluate whether the core underlying strength of the US economy remains sound as it is now and the potential negative impact from overseas economic weakness.

We will also use the current market conditions, as we always do, as an opportunity to invest in great companies that we expect will withstand and outlast policy mistakes and political chaos. It may be ugly and hard for investors for a while, but try to focus on the long term and stay in touch with us to discuss your portfolio and any questions you may have on strategy.

In closing, we appreciate your patience and forbearance during these trying times. We are here to discuss anything you need to-concerns, hopes, fears, and dreams. We hope to encourage you to follow Warren Buffett’s advice - to be contrarian and to be greedy when others are fearful, as they are now.