Economic & Investment Outlook – 2019

The markets in 2018 experienced a significant amount of volatility, especially compared to 2017 when there was very little. The chart below provides an overview of how various markets performed last year as well as over longer periods of time:

Index	2018	3 year*	5 year*	10 year*	Description
S&P 500 Index	-4.38%	9.26%	8.49%	13.12%	Large-Cap Stocks
Russell 1000 Growth	-1.51%	11.15%	10.40%	15.29%	Large-Cap Growth Stocks
Russell 1000 Value	-8.27%	6.95%	5.95%	11.18%	Large-Cap Value Stocks
Russell 2000 Growth	-9.31%	7.24%	5.13%	13.52%	Small-Cap Growth Stocks
Russell 2000 Value	-12.86%	7.37%	3.61%	10.40%	Small-Cap Value Stocks
MSCI – EAFE	-13.36%	3.38%	1.00%	6.81%	International Stocks
MSCI – Emerging Market	-14.25%	9.65%	2.03%	8.39%	Emerging Market Stocks
Barclay's Agg. Bond Index	0.01%	2.06%	2.52%	3.48%	Domestic Bonds
Consumer Price Index**	2.24%	2.02%	1.58%	1.72%	Inflation

**Returns are annualized; ** CPI returns are as of November 30th, 2018*

Tolerating market swings is a continuing concern for long-term investors and market gyrations such as those experienced in 2018 are more the norm than the exception. Importantly, over the long run, stocks have historically generated higher rates of returns compared to other investments.

The following chart helps to illustrate the historical frequency of stock market declines as measured by the S&P 500 Index:

Declines in the S&P 500 Over the Past 73 Years (since 12-31-1945)

Magnitude of Decline (%)	Number of Occurrences	Average Decline (%)	Average Duration of Decline in Months	Average Time to Recover in Months
5-10	75	(6)	1	1
10-20	25	(13)	4	3
20-40	8	(27)	11	14
40+	3	(51)	22	57

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Since 1945 declines of 5-10% have occurred with a high level of frequency (75 times over 73 years). The average time to recover in these events, however, has only been about one month. Declines between 10-20% have occurred about every three years, with an average recovery period of about three months. More severe declines are rare and typically occur during an economic recessions.

Last year the markets experienced two significant bouts of volatility. From January to February, the S&P 500 Index declined about -10%. A recovery was completed within a matter of days though, making it the fastest rebound in over 50 years. Then, during the last couple of months of the year, the market again experienced a rapid decline of about -20% from its peak. As of this writing in early January 2019, the markets have generally recovered to the levels where they stood in February 2018.

As a long-term investor it is imprudent to make any reactionary and drastic changes, such as selling stocks in favor of cash. Reactionary movements are typically based on emotion in a futile attempt to time the markets and often result in a losing proposition of buying high and selling low. Also, missing out on a rebound typically compounds these poor results.

For 2019, we are expecting continued volatility and a recovery from the declines experienced last year. As a client of Total Wealth Planning, your portfolio will continue to be globally diversified according to the Nobel-Prize winning Modern Portfolio Approach and be fully invested in 15-20 asset classes at all times. This structure allows the portfolio to be forgiving by its ability to withstand market downturns while fluctuating much less than the equity markets overall. However, opportunities often arise where we are able to take advantage of volatility. For example, with a significant portion of your portfolio invested in short-term, high quality bonds, we are always in a position to invest additional amounts while the markets are low. Further, at the beginning of 2018 we had a temporary 5% overweight to bonds and we used these proceeds to buy additional equities while they were down in value. Given time, as the markets eventually recover, you will see the benefits of these adjustments by having acquired more shares at these lower prices. In the meantime, we also continue to take profits, rebalance and harvest tax losses within taxable portfolios, a time-tested strategy for enhancing investment returns for long-term investors.

We look forward to serving you in the New Year and welcome discussions with you regarding your investment portfolio and financial planning concerns. Also, we are always interested in introducing our company to your colleagues, family or friends. If you know of others who may benefit from our services, we offer at no charge, an introductory consultation to determine if and how we might be able to assist them with our comprehensive wealth management services. Please feel free to have them contact us at by telephone at 513-984-6696 or via our website at www.twpteam.com.

Happy New Year!

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