WASATCH
CAPITAL MANAGEMENT OF
RAYMOND JAMES®

"Either cheer up or take off the hat."

JANUARY 2019

INSIDE THIS NEWSLETTER

- MARKET UPDATE
- 2019 TAX CODE CHANGES
- OUR BLOG IS LIVE!
- WASATCH TEAM UPDATE

Market Update. -Article by Mark Lazar

The only thing we have to fear is fear itself. Franklin Roosevelt

2018 sure didn't turn out the way it was supposed to.

Index	2018 Return
S&P 500	-6.20%
Barclay's Agg Bond Index	0.01%
Preferred Stock Index	-4.25%
EAFE Foreign Index	-13.79%
Emerging Market Index	-14.58%
Real Estate Index	-4.03%
Gold	-1.58%

With most of the full year's data in, here's where the economic data stands for 2018:

- 3.9% unemployment
- The U.S. economy grew at 2.9% for 2018, and is projected to grow at 2.6% in 2019
- Total U.S. wages/compensation increased 5.3% in 2018
- Capital investment increased over 7%
- Retail sales increased 4.9%
- Inflation, at 2.3%, was slightly above the Federal Reserve's target rate
- U.S. corporate revenues increased 8.9% in 2018
- U.S. corporate earnings increased 20.3% in 2018

How is it that virtually all risk assets produced negative returns in the face of overwhelmingly good economic data? The answer to this question is binary with only two possible answers: A) Mr. Market knows something outside of the scope of available data or, B) the market responded to trade and political angst with a selling stampede as investors followed the herd and raced for the exit. We believe it was the latter. Here's why:

- At a 14.3 PE forward PE ratio, stocks are now selling well below historic multiples relative to earnings
- Interest rates are low by historic average, which makes earnings more valuable
- Earnings are growing above historic average, which also makes earnings more valuable
- The recent selloff wasn't limited to U.S. and foreign stocks; it also included high-grade corporate bonds, preferred stocks, REITs, and commodities
- The yield on the 10-year Treasury is now about half a percent lower than it was in early October – which should have *increased* bond and preferred stock prices, not caused them to fall
- Despite the flattening yield curve, the U.S. economy is expected to grow at 2.6% and the global economy is projected to grow at 3.7%

Wild volatility combined with a 20% top to bottom drop reminded me of Black Monday, October 19, 1987, when the market dropped nearly 23% in a single day. Like the recent market rout, there was no real impetus or change in economic data that caused the market to shed nearly one quarter of its value in a single day. Why did the market drop so precipitously? The most likely reason being Animal spirits.

We did some research to see how the market responded after Black Monday and, not including dividends, the Dow increased nearly 11% for the remainder of 1987, over 12% in 1988, and 27% in 1989. The stock market is currently trading at roughly the same price to earnings multiple it was after Black Monday. Does this mean stocks will recover as much or as quickly as it did then? Perhaps. We can't predict what the market will do in the short run but the fundamental data overwhelmingly suggests stock prices should move higher to reflect their intrinsic value. We believe the patient investor who sticks with an appropriate balance of stocks, bonds, and cash will be well-rewarded, whereas the fearful investor will follow the herd, inevitably buying high and selling low.

2019 Tax Changes

For those still contributing to retirement accounts, there are a few things you should be aware of. First, you can still make contributions to your traditional or Roth IRA until April 15th for 2019, and as late as tax filing due date, including extensions, for SEP IRA's. 2019 contributions can be made any time after January 1, 2019 until filing date or April 15, 2020 depending on the retirement account. Second, the IRS has increased contributions limits into both Traditional IRA, Roth IRA, and 401k Plans. The chart below depicts 2018 contribution limits and the new 2019 contribution limits.

	2018 Limit	2019 Limit
Traditional IRA (<50 years old)	**$5,500**	**$6,000**
Traditional IRA (50+ years old)	**$6,500**	**$7,000**
Roth IRA (<50 years old)	**$5,500**	**$6,000**
Roth IRA (50+ years old)	**$6,500**	**$7,000**
401K	**$18,500**	**$19,000**

A few additional tax code changes for 2019, which are detailed below:

- Standard deduction increased:
  - Single- increased from $6,350 in 2017 to $12,000 for 2018
  - MFJ- increased from $12,700 in 2017 to $24,000 in 2018
- The personal exemption has gone away.
- Expanded use of 529 savings plans. These can now pay for qualified educational expenses at any level, not just college.
- No more Obamacare penalties, starting in 2019. (This is the fee you pay for not having health insurance)
- Estate Tax lifetime exemption has been increased (nearly doubled) to $11,180,000
- Social Security taxable wage base has increase to $132,900

Have questions about your personal accounts?
Give us a call to schedule a phone review to discuss: 385-275-3600

Our Blog is LIVE!

For weekly commentary, educational articles, and updates, save our Blog to your favorites!

https://www.raymondjames.com/wasatchcapitalmanagement/blog

If there is a subject you'd like to hear about, reply to this email with your suggestions.

Wasatch Team Updates

Mark

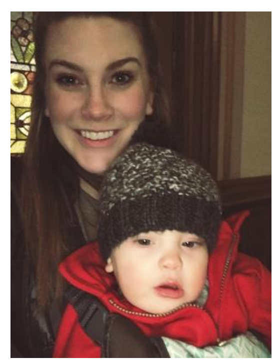
Mark, Savina, and a few friends out on a snowmobile trip near the house in Hayden, Idaho.

Morgan

Congratulations to Morgan for passing her CERTIFIED FINANCIAL PLANNER™ exam in December! A year of hard work, and lots of studying has paid off. She is excited to put her new credential to work.

John

John and his son Chase ringing in the holiday season in Panama.



Elisha

Elisha and baby Josie braving the negative temperatures while checking out Temple Square's holiday light display.

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