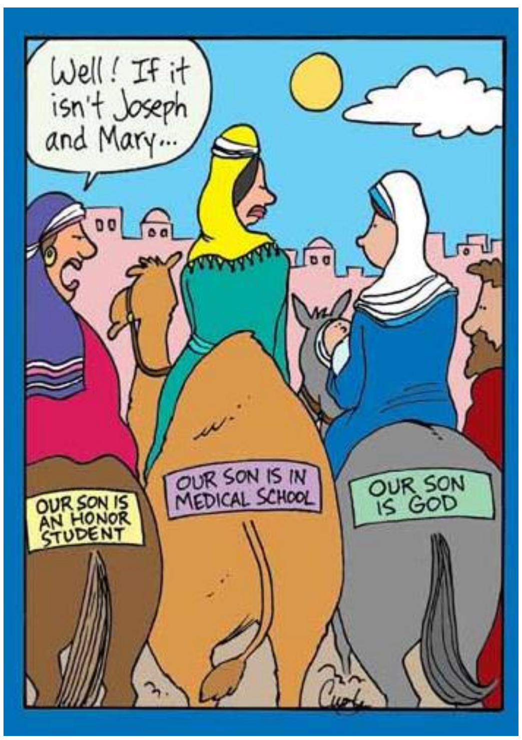
WASATCH
CAPITAL MANAGEMENT OF
RAYMOND JAMES®



DECEMBER 2018

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INSIDE THIS NEWSLETTER

The savvy investor. -Article by Mark Lazar

Risk comes from not knowing what you're doing. - Warren Buffett

2018 has certainly been a roller coaster year for investments; lots of ups and downs, but as we head into December a well-diversified portfolio has more or less produced a goose egg as far as returns go:

Index	YTD Return
S&P 500	3.20%
Barclay's Agg Bond Index	-1.84%
EAFE Foreign Index	-8.88%
Emerging Market Index	-13.85%
Real Estate Index	1.17%
Gold	-8.95%

**11/30/2018*

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Real Estate 34.4%	Emerging Market 39.8%	Bonds 5.2%	Emerging Market 79.0%	Smid Growth 28.9%	Bonds 7.8%	Real Estate 20.1%	Smid Growth 40.7%	Real Estate 27.1%	Large Cap Growth 5.7%	Smid Value 25.2%	Emerging Market 37.8%	BEST
Emerging Market 32.6%	Commodities 16.2%	Smid Value -32.0%	Smid Growth 41.7%	Real Estate 27.6%	Real Estate 7.3%	Smid Value 19.2%	Small Cap (broad) 38.8%	Large Cap Value 13.5%	Real Estate 2.3%	Small Cap (broad) 21.3%	Large Cap Growth 30.2%	
International 25.7%	International 12.4%	Small Cap (broad) -33.8%	Midcap (broad) 40.5%	Small Cap (broad) 26.9%	Large Cap Growth 2.6%	Emerging Market 18.6%	Midcap (broad) 34.8%	Large Cap (broad) 13.2%	Large Cap (broad) 0.9%	Large Cap Value 17.3%	Smid Growth 24.5%	
Large Cap Value 22.2%	Large Cap Growth 11.8%	Commodities -35.6%	Large Cap Growth 37.2%	Midcap (broad) 25.5%	Large Cap (broad) 1.5%	Large Cap Value 17.5%	Large Cap Growth 33.5%	Midcap (broad) 13.2%	Bonds 0.6%	Midcap (broad) 13.8%	International 24.2%	
Smid Value 20.2%	Smid Growth 9.7%	Large Cap Value -36.8%	International 33.7%	Smid Value 24.8%	Large Cap Value 0.4%	Midcap (broad) 17.3%	Smid Value 33.3%	Large Cap Growth 13.0%	Smid Growth -0.19%	Large Cap (broad) 12.1%	Large Cap (broad) 22%	
Small Cap (broad) 18.4%	Bonds 7.0%	Real Estate -37.3%	Large Cap (broad) 28.4%	Emerging Market 19.2%	Midcap (broad) -1.5%	Large Cap (broad) 16.4%	Large Cap (broad) 33.1%	Smid Value 7.1%	Midcap (broad) -2.4%	Commodities 11.8%	Midcap (broad) 18.5%	
Large Cap (broad) 15.5%	Large Cap (broad) 5.8%	Large Cap (broad) -37.6%	Smid Value 27.7%	Commodities 16.8%	Smid Growth -1.6%	International 16.4%	Large Cap Value 32.5%	Smid Growth 7.1%	International -3.0%	Emerging Market 11.6%	Small Cap (broad) 14.7%	
Midcap (broad) 15.3%	Midcap (broad) 5.6%	Large Cap Growth -38.4%	Real Estate 27.4%	Large Cap Growth 16.7%	Smid Value -3.4%	Small Cap (broad) 16.3%	International 21.0%	Bonds 6.0%	Large Cap Value -3.8%	Smid Growth 9.7%	Large Cap Value 13.7%	
Smid Growth 12.3%	Large Cap Value -0.2%	Midcap (broad) -41.5%	Small Cap (broad) 27.2%	Large Cap (broad) 16.1%	Small Cap (broad) -4.2%	Smid Growth 16.1%	Real Estate 3.2%	Small Cap (broad) 4.9%	Small Cap (broad) -4.4%	Real Estate 9.3%	Smid Value 10.4%	
Large Cap Growth 9.1%	Small Cap (broad) -1.6%	Smid Growth -41.50%	Large Cap Value 19.7%	Large Cap Value 15.5%	International -12.2%	Large Cap Growth 15.3%	Bonds -2.0%	Emerging Market -1.8%	Smid Value -5.5%	Large Cap Growth 7.1%	Real Estate 9.8%	
Bonds 4.3%	Smid Value -7.3%	International -43.6%	Commodities 18.9%	International 8.9%	Commodities -13.3%	Bonds 4.2%	Emerging Market -2.3%	International -4.3%	Emerging Market -14.6%	International 2.8%	Bonds 3.5%	
Commodities 2.1%	Real Estate -17.8%	Emerging Market -53.2%	Bonds 5.9%	Bonds 6.5%	Emerging Market -18.2%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Bonds 2.7%	Commodities 1.7%	WORST

*Sourced from Raymond James: Annual Returns For Key Indices // 1998-2017 Ranked in Order of Performance (best to worst)

The quilt chart above illustrates the often-erratic nature of sub-asset classes; in 2008 core bonds were the best performing asset class and emerging market stocks were the worst. however, in 2009 they flip-flopped, and EM became the best performing asset class and core bonds were the second worst. In other words, investments that are top of the hill one year are oftentimes bottom of the barrel in a year or two. Which is why smart investors are diversified, both in terms of asset classes (stocks, bonds, cash, etc.)

but also in regard to sub asset classes and investment style, such as domestic versus foreign stocks, growth versus value style investing, or large versus mid-size or small company stocks.

So, what is the savvy investor to do? Sit in cash and wait for the market to "feel good" then suddenly invest everything in stocks? To quote Peter Lynch, arguably the most successful fund manager of all time, "I can't recall ever once having seen the name of a market timer on Forbes' annual list of the richest people in the world. If it were truly possible to predict corrections, you'd think somebody would have made billions by doing it."

Successful investors tend to share a common trait; patience. Rather than follow the herd – buying high and selling low – they, instead, adhere to a clearly defined disciplined investment strategy. However, according to a NYU study, since 1928, the primary asset classes have provided the following average annual returns:

- Stocks 9.65%
- Bonds 4.88
- T-Bills 3.39%

Over this time period, an investment of $100 would have grown as follows:

- Stocks $363,721
- Bonds $6,945
- T-Bills $1,944

According to a study by Dalbar, institutional investors (non-profits, endowments, pension plans, etc.) outperform individual investors by more than 3% annually. Whereas individual investors tend to make emotional investment decisions, institutions stay the course and follow their investment policy statement, which defines how much of the portfolio should be allocated to domestic stocks, foreign stocks, bonds, sectors (i.e. real estate, commodities, etc.), and cash.

Stocks, bonds, and real estate are long-term investments, and will always be subject to periods of short-term volatility. But short-term price movement is not synonymous with risk. Rather, it's simply a predictable characteristic of the market. A well-diversified, strategically managed portfolio of stocks, bonds, and cash has consistently, over time, provided excess returns over the most insidious risk of all; inflation.

What is Risk Management?

Wikipedia defines risk management as the “identification, evaluation, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events or to maximize the realization of opportunities”.

So, what does this mean for you, and why are we talking about it?

We’re talking about it because risk is all around us, and every single day we make decisions to minimize risk.

Example: You’re crossing the street. This means there is a risk you can get hit by a car, or a bike, or a bus. But, you choose to lessen that risk by looking both ways first, and monitor before stepping. Congratulations, you’ve just mitigated risk!

Every day we unknowingly mitigate risk for the simplest and smallest of task. But what about the big things?

In finance when we talk about risk management, we talk about it in terms of protecting what you’ve worked so hard for. Your portfolio for instance; when you’re younger you have more time to recover from bear markets, as well as more time to enjoy compound returns. However, as we get older, our time horizon becomes shorter and investment portfolios typically become more income-producing and more defensive. In the next few months’, we will be speaking to all of you about Risk Management, and ensuring your plans protect what you’ve worked for, and align with your goals. In the meantime, here are a few rules of thumb to start thinking about:

Umbrella Policy: Liability coverage that kicks in once your homeowners policy limit is exhausted.

Rule of thumb: your coverage should equal your net worth.

Emergency Fund: Cash or money market account to provide liquidity if you hit hard times.

Rule of thumb: 3 months of non-discretionary expenses for two income family, 6 months of expenses for a one income family.

Homeowners Insurance: Insurance coverage for your residences.

Rule of thumb: Properties should be insured for 100% of replacement cost. **Make sure to monitor as construction cost rise.

Wasatch Team Updates

Mark

This has been a tumultuous month for Victor and the Lazar family. After celebrating Victor's 99th birthday, Victor fell ill and was hospitalized. After a few days of TLC at the hospital, Victor was feeling well enough to join Mark and Savina on a road trip through California to his former stomping grounds. Above is a photo of the family on one of the stops along their 2,000 mile journey!

Morgan

The snow gods have answered her prayers. Morgan has gleefully been breaking in her ski touring gear and is eagerly awaiting the next snow storm. Seen here with her touring skins, she believes skiing uphill makes the trip down so much sweeter.

John

John and his wife, Shawn, out recently at a paint night, putting their artistic skills to work. I wonder who is getting a painting for Christmas!?

Elisha

Elisha and her family on Thanksgiving Day. Sweet little Josie is just getting ready to turn one year old!

Mark Lazar, CFP®, MBA, Vice President- Investments | 385-275-3609

Morgan Irvin, Financial Advisor | 385-275-3606

John Bergerson, CFA®, MBA, Investment Portfolio Associate | 385-275-3608

Elisha Rhoades, Client Service Associate | 385-275-3591

2750 E Cottonwood Parkway, Suite 520, Cottonwood Heights, UT 84121

1389 Center Drive, Suite 200, Park City, UT 84098