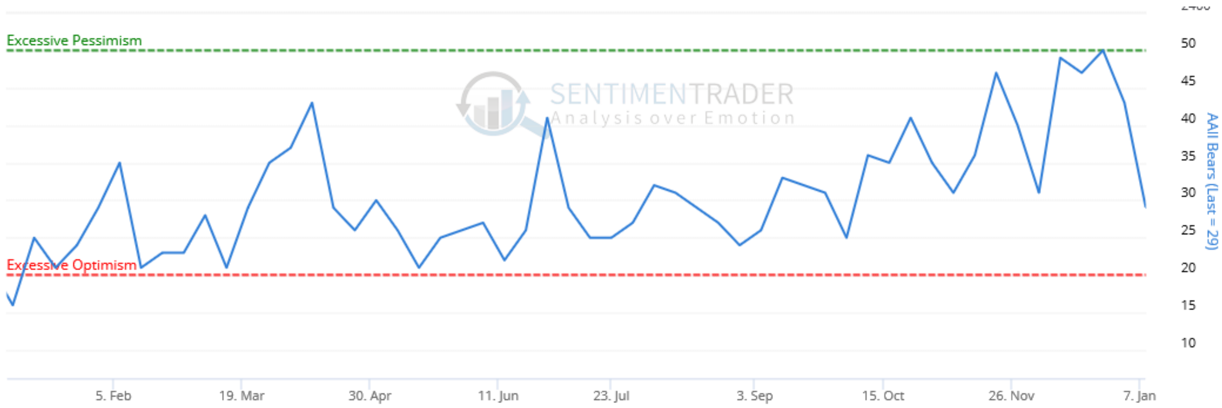
Dear Client,

I often review the previous quarter's letters when sitting down to write one of these. It is hard to believe how dramatically the market's mood has shifted over the past three months. Here is recap of 2018: One year ago today, the markets were absolutely giddy with excitement. Generally, most people were feeling great about 2017's healthy gains, and newly lowered corporate tax rates pointed towards even better earnings for 2018. Of the twenty-one trading days of January 2018, the market was up on all but four, for a gain of 6%! The fed was raising rates, but, in my opinion, nobody cared! Record amounts of money was pouring in to stock mutual funds and ETFs. Seemingly everyone was euphoric. Until they weren't. When it became apparent that the Trump administration was about to launch a trade war ("Trade wars are good and easy to win"-@realDonaldTrump)*, the markets promptly turned south, giving up all of January's gains and then some. It took months for the S&P 500 to dig its way out of that hole, but it did, gradually rising over the summer to a peak of just over 2900 by the end of September, or a gain of over 13%. Then things really got nasty. The rhetoric on the trade war went up several notches, with the administration threatening to raise the tariffs on China from 10% to 25% AND to apply to the tariffs to virtually everything China sells to us. The drop-dead date was set at 12/31/18. But then we learned, in dramatic reality TV fashion, that Trump and Chinese president Xi were to meet at the G20 in Buenos Ares 11/31-12/1. The two sides faced off across the dinner table from each other and lo and behold, they agreed to continue negotiations with a new drop-dead date of 3/02/19.

The stock market did not like this game, not one little bit. The S&P 500 went into a major tailspin beginning in early October and, after vacillating sideways in November, really took it in the shorts in December. It was the worst December (normally a strong month) since the 1930's. The S&P 500 lost nearly 20% in three months. It was one of the fastest, most severe pullbacks in 70 years.*** Trade tensions were the main culprit, but the fact that the federal reserve was adamant about raising interest rates at their December meeting and signaling several more raises in 2019-this really smacked the market right between the eyes. Many hedge funds were forced to liquidate, selling everything they owned at lower and lower prices. The selling culminated on Christmas Eve, with a 600 plus point drop in the Dow Jones.

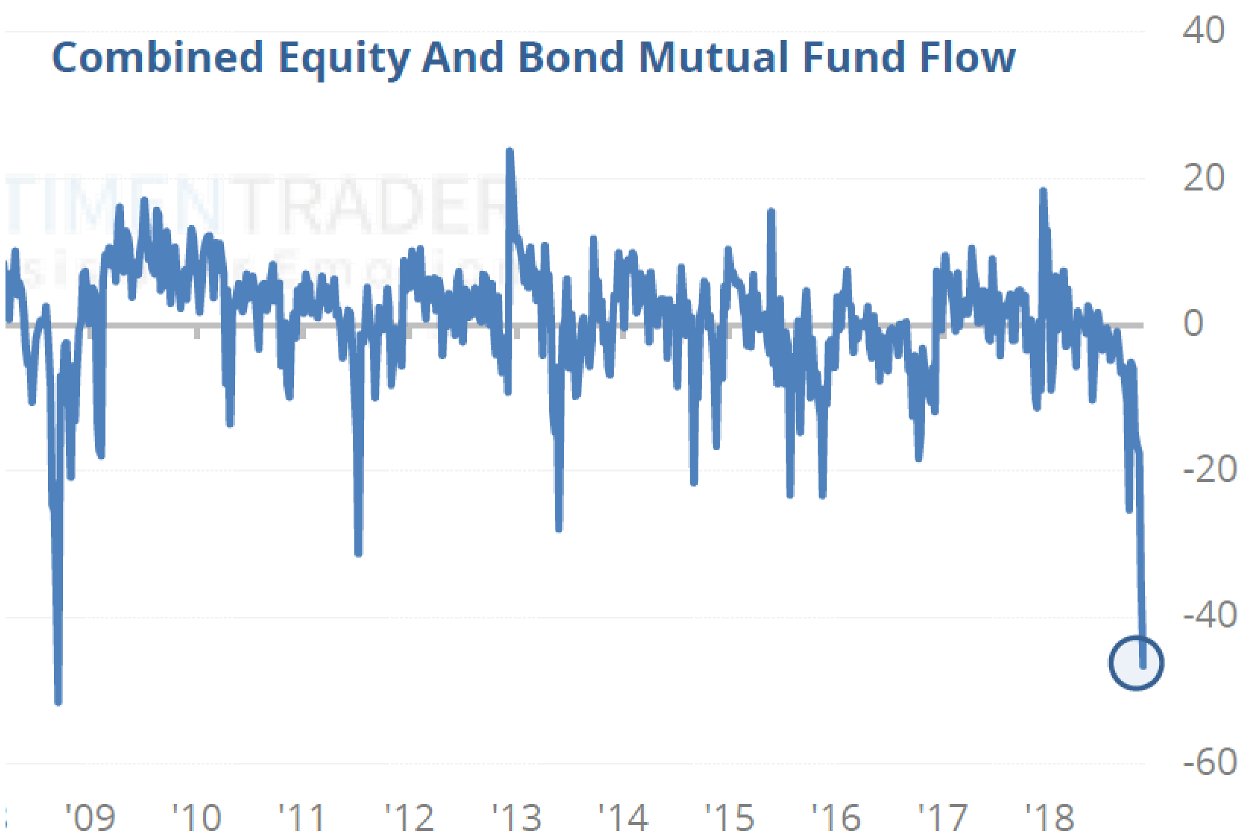
Humans can't remember pain (an evolutionary trait that keeps women having more children after their first born!), but financial pain has a way of sticking in your memory. In my opinion, most people hate losing money much more that they enjoy making it. Most people would rather not lose $100 than find a $100 bill. Studies have shown that investors feel the pain of a loss 2-2.5 times as much as they enjoy equivalent gains.** December of 2018 was very painful, but also very fast. Like a rubber band stretched to its breaking point, things got very, very oversold. Here are some statistics which illustrate how bad it was:

1. The American Association of Individual Investor survey say 50% of respondents "bearish" last month. In January of 2018, the number was 16%. ***



2. Among the 500 stocks in the S&P 500, there were zero stocks hitting 52 week highs for six straight days. This was the longest streak since 1990***

3. Investors pulled more than $46 billion out of stock and bond funds in the week through December 19th. Only the week of October 15th, 2008 can match this "get me out of everything" mentality. *** This chart shows the net amount of $ going into/out of all mutual funds. The right scale is in billions of dollars.



4. On 12/12/18, the CBOE's put/call ratio hit 1.82, its highest level in 23 years. This shows that traders were very fearful, which often coincides with low points for the market.*#

Cboe Total Options Volume - Put/Call Ratios

Dates with the Highest and Lowest Put/Call Ratios

During the Period from Sept. 27, 1995 through Dec. 20, 2018

	Highest P/C Ratios	
1	20-Dec-2018	**1.82**
2	27-Feb-2007	**1.70**
3	21-Aug-2015	**1.69**
4	5-Mar-2007	**1.67**
5	14-Mar-2007	**1.66**
6	23-Mar-2018	**1.54**
7	26-Jul-2007	**1.53**
8	16-Aug-2007	**1.53**
9	17-Jan-2008	**1.53**
10	20-May-2010	**1.53**

	Lowest P/C Ratios	
1	26-Dec-1997	**0.30**
2	16-Mar-2006	**0.32**
3	7-Apr-2000	**0.37**
4	23-Feb-2000	**0.37**
5	14-Jul-2000	**0.38**
6	9-Mar-2000	**0.38**
7	12-Jul-2000	**0.39**
8	10-Mar-2000	**0.39**
9	8-Jun-2000	**0.40**
10	3-Mar-2000	**0.40**

Source: Cboe Exchange, Inc. The ratios are based on preliminary reported volume or on cleared volume. www.cboe.com/data

Then, after the Christmas Eve downturn, something amazing happened. We had two days when 95% of the volume flowed into stocks going UP, not down! This almost never happens, except at major turning points in the market. The only time this ever happened since 1947 and stocks **failed** to rise over the next 2, 3, 6, and 12 months was in April of 2008, before the Great Recession.*#*

I certainly don't have a crystal ball, and the number of factors which may or may not cause the next recession are really impossible to analyze with any certainty. The Trade War with China continues, with really no transparency for investors other than vague news reports that talks are "progressing".

The government shutdown has just entered its fourth week, the longest on record, with no sign of compromise. China, the world's second largest economy, is feeling real economic pain, as are many, many US companies with far-flung international exposure and complex supply and logistics chains spread all over the globe. When Federal Express, John Deere and Caterpillar start warning of profit warnings and lower revenue, it seems the tariffs are starting to bite. Can the layoffs be far behind?

Yes, things are lot different than last January. Many investors seemed jubilant, the Federal Reserve was raising rates, and the market was at all-time highs. Now many investors are scared, but the Federal Reserve has dialed way back on their rhetoric about raising rates. The futures market is now predicting that the next move from the fed will be a cut in rates. My best guess is that we will muddle through, absent some policy error or exogenous shock to the economy (like 9/11). Earnings estimates are no longer rising at an increasing rate (the important second derivative), but they are still expected to increase. So we won't match 2018's 17% growth, maybe it will be 11% or even 5%. The economy is still very healthy and the P/E ratio of the market has come down a lot. At some point (maybe already?) the market will realize that things are not so horrible and begin to pay up for quality companies again.

As we gear up for another tax season, here is some information you may find useful:

2018 Form 1099 mailing schedule

- January 31 – Mailing of Form 1099-Q and Retirement Tax Packages
- February 15 – Mailing of original Form 1099s
- February 28 – Begin mailing delayed and amended Form 1099s
- March 15 – Final mailing of any remaining delayed original Form 1099s

As always, please feel free to contact us with questions, concerns or comments.

Regards,

Sam Joe

Samuel Gross
Sr. Vice President, Investments

Joseph Brady
Sr. Vice President, Investments

Tonya Rasmussen
Financial Advisor

*https://www.cnbc.com/2018/03/02/trump-trade-wars-are-good-and-easy-to-win.html
**https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/loss-aversion/
*** www.sentimentrader.com
*#http://www.cboe.com/blogs/options-hub/2018/12/26/cboe-s-all-options-put-call-ratio-hits-1.82-its-highest-level-in-more-than-23-years
*#*https://sentimentrader.com/users/report/2019/sentiment_report_20190104.pdf
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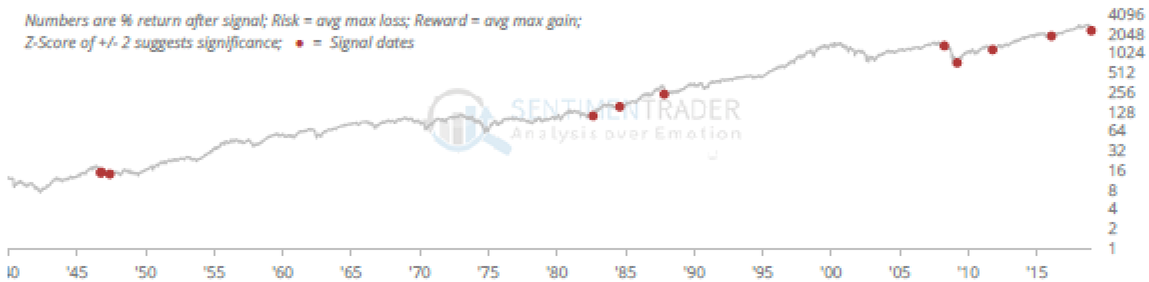
S&P 500 after two 90% Up Volume Days within two weeks of a low (1940-2018)



Signals	1 Week	2 Weeks	1 Month	2 Months	3 Months	6 Months	1 Year
1946-09-25	-0.4	-6.5	-2.1	-4.3	0.6	1.5	-1.7
1946-10-15	-2.7	-6.8	-3.7	-0.8	-1.5	-7.9	1.8
1947-05-28	0.3	3.3	5.4	8.7	6.3	5.1	16.9
1982-08-20	3.6	8.5	10.5	23.2	22.4	30.5	44.7
1984-08-02	4.8	3.7	5.5	3.5	5.1	13.7	21.6
1987-10-29	4.0	1.5	-5.9	1.3	5.0	6.8	13.3
2008-04-01	-0.3	-2.6	1.1	2.2	-6.6	-19.3	-41.8
2009-03-12	4.4	10.9	14.4	21.0	25.9	39.1	53.2
2011-10-10	0.5	5.0	6.8	3.3	8.1	14.5	20.6
2016-01-29	-3.1	-3.9	2.0	6.2	6.4	12.0	17.6
2019-01-04							
Median	**0.4**	**2.4**	**3.7**	**3.5**	**5.7**	**9.4**	**17.2**
% Positive	**60%**	**60%**	**70%**	**80%**	**80%**	**80%**	**80%**
Risk	-0.1	-1.3	-1.7	-3.0	-4.4	-4.4	-4.6
Reward	1.8	4.2	5.4	6.6	7.5	12.3	17.7
Z-Score	0.3	1.1	1.5	0.7	1.2	1.0	1.0