A Year to Remember…or Forget

I want to begin by wishing everyone a happy and healthy 2019. I remember many New Year's Eve celebrations and I realize that you can infer a lot about a person's wellbeing by their reaction to the New Year. Similar to the preverbal, "*is the glass half full or half empty*", there are typically two responses. First there are those that are excited for the New Year and look forward to what the year holds. Then there are those that are just happy that the previous year is over. My unscientific results from this New Year's Eve tell me that there are many more "Relieved that the year is over" than past years. There are many valid reasons for this, some real concerns such as a pending operation, a health issue, or any family issue, among others. The stock market should not be a reason to wish away a year. Sure, bear markets are very unpleasant, but they are a part of investing. This is exactly why a long-term investment strategy is so important.

Just three months ago, in our fall newsletter, I said, "We continue to be bombarded with negative predictions." Citi's chief US Equity strategist Tobias Levkovich's Panic/Euphoria Model has dipped into panic territory - a contrarian signal suggesting high probabilities of the market moving higher over the next 12 months. For the first nine months of 2018, we had one brief correction in February but rather smooth sailing for the remainder of the time. When we look at the year, it can be described as "the best of times and the worst of times." Unfortunately, we ended near, "The worst of times." We have been what may be described as repetitive in our quarterly newsletter, letting everyone know we expected sooner or later a 10% or greater correction. This seemed unlikely during most of the last two years since we had an unusually calm market. When corrections occurred in the past ten years, most were quickly followed by a V-shaped recovery, allowing those who become emotional to calm their fears within a short period of time.

Over the last 40+ years, I have invested through many bear markets, one of which included a 22% drop in a single day. I try to keep from being emotional, but am only able to do so by minimizing some risks by hedging and understanding that owning investments at attractive prices works over the long-term particularly in Closed-End Funds (CEFs). Our approach consists of three main investment vehicles, with many subsections within the strategy.

CEFs, like mutual funds, specialize in many different asset classes but unlike mutual funds provide additional benefits when purchased properly at a discount to net asset value. CEF strategies range from high-yield junk bonds to domestic and global bonds, tax-free income, convertible bonds, option writing, commodities, growth and income, just to name a few. This allows BBPWM to diversify a portfolio while letting CEF discounts provide additional benefits to portfolios.

One of our favorite investments, especially in volatile markets, are Structured Notes, which exist for virtually any asset class or market view. Recently, we have increased our downside protection from 10% to 15% and even 20% on some of our new issues. Recent market volatility is what makes these increased buffer amounts possible while still providing reasonable upside potential.

Finally, ETFs and options allow us the opportunity to capitalize on various market views. That being said, 2018 saw a horrific short-term drop in the market with virtually every investment class suffering through negative results. Silver and gold were down 12 and 5 percent, respectively. The European index, STOXX 50, was down 13% while China was down 20%. Emerging markets, when using Argentina as the measurement, were down 52%. Small, mid, and large cap US indices were down between 6% and 11%. Crude Oil was down 25% and even corporate bonds saw negative returns. While an unpleasant year for most investors, having and understanding some of your downside protection helped most clients keep their emotions in check.

A Year to Remember (continued)

What will 2019 bring? There is a tremendous certainty as well as significant uncertainty, "A tale of two markets." As discussed in our third quarter newsletter, it is absolutely certain the media will continue to create a frenzy with sensational headlines. Many of these headlines, when looking in the past, proved to be inconsequential, but can create havoc in the short term. Twitter, Google, Yahoo, and Facebook bombard us with information, wondering why people are possibly more emotional as even the most serene of us cannot keep our eyes and ears closed.

The concerns about acting on emotions, either fear or greed, is a natural reaction. It is rather easy to stay positive in rising market environments. Obviously, it is much more difficult during a bear market. The lower the markets go, the more difficult investors find it to stay invested. One way this fear is created is addressing subjects which are very complex and depicting them as a simple, black-and-white explanation. For these reasons as well as many others, it is most important that you understand our investment favorites. My advice is for one to know their risk tolerance, personal goals, and time horizon for investments, as we will always face bull markets as well as bear markets. Since everyone is different, it may be interesting for you to know that over the years, I have had many investors in their 70s and 80s with a higher risk tolerance than other investors in their 20s and 30s. Possibly, it is the result of experience and expectations that cause these differences.

Another major concern has been the Federal Reserve's interest rate policy. Traders believe that when the Fed speaks, the world listens. In Jerome Powell's recent news conference, he seemed much more confident in the need to raise interest rates. These increases have been one of the major reasons stocks have done so poorly in November and December. A new chief of the Federal Reserve must learn the buzz words and speak clearly so not to affect the equity market. We did tentatively enter a bear market after the December rate hike, and while it is much too easy to say we have hit bottom, those who gave up and cashed in the day before Christmas are certainly feeling a lot less content, at least in the short-term.

Corporate earnings and the growth rate of the economy has been another obstacle to market growth. Again, how the news is communicated can cause major swings in equity prices. The fact is while the gyrations are hard to overcome, I haven't seen any respected analyst say we were going to enter into a recession in 2019 even while the market acted that way. Just the opposite, the forecast by the analysts we follow expect earnings growth in the 8-9% area and all see the market ending higher at the end of 2019. Several factors can change the forecast rather quickly, including oil prices, global trade, world economies, Brexit, interest rates, consumer sentiment, just to name a few. It is also important to note, however, that even with positive expectations, most earnings revisions have been lower than originally forecasted. With lower growth expected but still reasonable, the market can rise, however, most likely with the recent volatility continuing. While I mentioned in 2019 as our newsletter shows, every analyst is expecting a positive return, it must be noted that not a single analyst felt the market would fall in 2018, as we included in our 2017 year end newsletter.

As mentioned above, it is important that you understand your investment style and our solutions to that style. We always are available for personal meetings and encourage you to do so. Again, have a healthy, happy, and hopefully prosperous 2019.

2019 Wall St. Strategist Projections

As 2018 comes to an end, we like to look back at projections for the S&P 500 index that top Wall St. strategist made for the year and what they are expecting for 2019. The S&P 500 ended the year down 6.24% after one of the worst fourth quarters in history. Despite this historically bad quarter only one out of the 17 strategists below believe the S&P 500 will finish 2019 lower.

2019 Wall St. Strategist Projections

The average predicted finish for the S&P 500 in 2019 is 2971 which is an 18.57% increase from the December 31st close. Take this with a grain of salt as all these strategists were an average of 13% off last year's predictions. Below you can see each of their predictions as well as some commentary from a few of them.

Firm	Strategist	2018 Projection	% off target	2019 Projection	2019 change %	2019 EPS
Bank of America	Savita Subramanian	2800	-10.50%	2900	15.72%	$ 170.00
BMO	Brian Belski	2950	-15.05%	3150	25.70%	$ 174.00
Citi group	Tobias Levkovich	2800	-10.50%	2850	13.73%	$ 173.00
Credit Suisse	Jonathan Golub	2987	-16.10%	2925	16.72%	$ 174.00
Goldman Sachs	David Kostin	2850	-12.07%	3000	19.71%	$ 173.00
Morgan Stanley	Michael Wilson	2750	-8.87%	2750	9.74%	$ 171.00
RBC Capital	Lori Calvasina	2625	-4.53%	2900	15.72%	$ 171.00
Societe General	Roland Kaloyan	2500	0.24%	2400	-4.23%	N/A
UBS	Keith Parker	3300	-24.06%	3200	27.69%	$ 175.00
Jeffries	Seab Darby	2855	-12.22%	2900	15.72%	$ 173.00
Barclays	Maneesh Deshpande	2900	-13.59%	3000	19.71%	$ 176.00
JP Morgan	Dubravko Lakos-Bujas	3000	-16.47%	3100	23.70%	$ 178.00
Deustch bank	Binky Chadha	3000	-16.47%	3250	29.69%	$ 175.00
Oppenheimer	John Stoltzfus	3000	-16.47%	2960	18.12%	$ 175.00
Berstein	Noah Weisberger	3000	-16.47%	2950	17.72%	$ 160.00
Canaccord Genuity	Tony Dwyer	3200	-21.69%	3200	27.69%	$ 160.00
Wells Fargo	Chirs Harvey	2850	-12.07%	3079	22.87%	$ 173.00
	Average	$ 2,903.94	-13.35%	$ 2,971.41	18.57%	$ 171.94
	High	$ 3,300.00	22.64%	$ 3,250.00	29.69%	$ 178.00
	Low	$ 2,500.00	2.12%	$ 2,400.00	-4.23%	$ 160.00
*based on S&P 500 price at close on 12/31/2018						

Goldman Sachs, 3000

"A higher U.S. equity market, a lower recommended allocation to stocks and a shift to higher quality companies summarizes our forecast for 2019," Kostin said. He characterized "high quality" stocks as those carrying strong balance sheets, stable sales growth, low EBIT deviation, high return on equity and low drawdown experience.

JP Morgan, 3100

"We expect the equity pain trade to be on the upside, given diminishing tariff and Fed related risks, positive earnings growth, attractive valuations, continued shrinkage of equity supply via buybacks, and given very low investor positioning".

Citi Group, 2850

"The good news is that 2019 estimated consensus EPS growth has slipped from a very unlikely 12% back in September to 9% currently, probably on its way to 6%, at which point a 'meet or beat' environment can reemerge."

Bank of America, 2900

"We suspect that we see a peak in equities next year, but bearish positioning and weak sentiment in stocks present upside, especially if trade risks subside, keeping us constructive for now."

Morgan Stanley, 2750

"After a roller coaster ride in 2018 driven by tighter financial conditions and peaking growth, we expect another range-bound year driven by disappointing earnings and a Fed that pauses," Wilson wrote. "Valuation should be key factor in stock selection."

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2019 Contribution limits

Retirement account contribution limits have increased in 2019 for IRAs and 401(k)s. New limits are in the table below. If you have any questions about the limit increases, please feel free to contact one of our advisors.

Account	2018 limit	2019 limit	Over 50 contribution
IRA	$ 5,500.00	$ 6,000.00	$ 7,000.00
Roth IRA	$ 5,500.00	$ 6,000.00	$ 7,000.00
401 (K)	$ 18,500.00	$ 19,000.00	$ 25,000.00
403 (b)	$ 18,500.00	$ 19,000.00	$ 25,000.00
457 (b)	$ 18,500.00	$ 19,000.00	$ 25,000.00
SEP IRA	$ 55,000.00	$ 56,000.00	N/A
Simple IRA	$ 12,500.00	$ 13,000.00	N/A
Simple 401 (K)	$ 12,500.00	$ 13,000.00	N/A

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Reminders

- If you mail a check, please make the check payable to "Charles Schwab & Co, Inc." with your account number written on the check.
- Prior year (2018) IRA contributions must be made by April 15th, 2019.
- Talk to your children about the benefits of starting a Roth IRA.
- SAVE NOW! Please consider setting up online access to view your accounts online and to receive your statements and trade confirmations electronically.