



1st Quarter Newsletter

January 2019

Happy New Year! I hope you enjoyed a blessed and relaxed holiday season. We pray your 2019 will be filled with good health and many wonderful days.

Recent Market Performance

The economy in the U.S. continues to be strong – companies are doing well, unemployment hit a 50-year low, and wages are rising. Unfortunately, the 4th quarter results were awful for stocks, especially in the U.S. Below are quarterly results along with the full year and longer term results.

Stocks Index Total Returns	4th Qtr.	2018	10 Year
Data as of December 31, 2018	2018	Results	Results
Dow Jones Industrial Average (DJIA)	-11.31%	-3.48%	13.16%
Standard & Poor's 500 (S&P 500)	-13.52%	-4.38%	13.12%
Russell 2000 (Small US Companies)	-20.20%	-11.01%	11.97%
MSCI EAFE in US \$ (Europe, Australasia, Far East)	-12.54%	-13.79%	6.32%
MSCI Emerging Markets (in US \$)	-2.92%	-16.64%	5.47%
MSCI ACWI NR (in US \$)	-12.75%	-9.42%	9.46%

Bonds - Total Returns	4th Qtr.	2018	10 Year
Data as of December 31, 2018	Results	Results	Results
BarCap Municipal Total Return	1.69%	1.28%	4.85%
BarCap Aggregate Bond Total Return	1.64%	0.01%	3.48%



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Mutual Fund Index Total Returns	4th Qtr.	2018	10 Year
Data as of December 31, 2018	Results	Results	Results
Large-cap Growth	-14.48%	2.94%	15.92%
Large-cap Value	-9.59%	-5.90%	10.17%
Small-cap Growth	-21.44%	-5.67%	13.89%
Small-cap Value	-19.19%	-16.61%	12.47%
World Allocation	-8.08%	-8.26%	6.90%
Foreign Blend	-12.68%	-14.59%	5.89%

Please see index definitions at the end of the newsletter. Source: Morningstar

*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

Financial & Investment Comments

What a difference a quarter makes.

To put it mildly, the fourth quarter stunk – especially the month of December when it felt like stock prices were dropping by 2% each day. In fact, December was the worst month for the Dow Jones Industrial Average (Dow) in over 70 years. We had the single worst Christmas Eve ever with the Dow falling over 660 points. During the quarter, the Dow, the S&P 500 and the Russell 2000 all fell in price by 20% or more. For the year, all three U.S. indices that we track in this newsletter suffered losses. For the Dow and the S&P, it was their first calendar losses since 2008 and the financial crisis.

Note I always include a column labelled “10 Year Results”. I do this for a big reason – to encourage readers to think about the longer term and not the short term selloffs. While the quarter was awful – 20% downturns never feel good – it is important to keep in mind that these short term price declines are usually the price we pay to achieve longer term results that can help us build wealth and increase our purchasing power. All of the US indices listed had average returns exceeding 10% for the past decade. Bonds on the other hand had results in the 3% to 4% range. Someone who invested in a diversified basket of stocks with a 10% average return over the period would have seen a \$100,000 investment turn into \$259,374 (taxes excluded). The same person who invested in a bond portfolio that earned 4% over the same time frame would have seen their portfolio grow to \$148,024. So by staying the course, the equity investor netted over \$110,000 more, in this scenario. This long term focus is why we shouldn't get too caught up in the short term issues. (Scenarios described are hypothetical and are provided to illustrate the potential benefits of financial planning. It is not intended to reflect the actual performance of any security.)

One further point to reemphasize – as I have been doing in recent review meetings – is that we should expect these periodic selloffs. Since the end of 1979, the S&P 500 has had an average annual return in excess of 10%. Over the same 39 year period, the average intra-year *decline* has been over 14%. Some may say that the decline figure is skewed by the

crash of 1987, the tech and dot com bubble of 2000-02 and the 2008 financial crisis. Yet, in 15 of the 39 years, the market had an intra-year decline of 14% or more. In 22 of the years, the market had a 10% or greater intra-year decline. If you invest in stocks, you should expect periodic sharp declines. Any investor who doesn't is like the person who moves to Florida and thinks they'll never experience a hurricane. (Source: J. P. Morgan Guide to the Markets 1st Quarter 2019)

Triggers of the Sell Off

Several key ongoing events seemed to trigger the 4th quarter decline and a couple of other items exacerbated it into December. For the Dow and the S&P, the decline started at the beginning of October as traders and investors fretted about three ongoing events (source – Jeff Saut, Raymond James Chief Investment Strategist – Jeff Saut presentation November 13, 2018 Columbus, Ohio to Wealth Management Council and clients):

- The ongoing trade war with China. The Chinese sold off billions of U.S. Treasury bonds with the aim to sharply increase U.S. interest rates and hurt the economy. They also happen to need cash to shore up their own economy which has been slowing.
- The Federal Reserve's ongoing hikes in interest rates and actions to shrink the amount of bonds they own. Without getting too technical, as they increase rates, the cost of borrowing goes up for all sorts of loans. (It also helps drive up interest investors receive on their savings – that sort of gets lost in the discussion.) Many feel the Fed is hiking rates too fast.
- The uncertain outcome of the mid-term elections.

Keep in mind there are many types of investors in the markets. Many short term oriented investors pulled funds from the market. In addition, a key contributor in December was tax loss selling in which someone who has a 'paper' loss sells their stock to 'realize' the loss for tax purposes. For many investors, they simply wait for a better day (however they define that – that's a challenge) to reinvest their cash.

The Outlook for 2019

Historically, stocks have been considered a Leading Economic Indicator. When stocks rise, it often means better economic activity lies ahead and when they fall sharply that a recession may be near. As Mike Gibbs, Jeff Saut and others have noted, falling stock prices have predicted 9 of the last 5 recessions. (Source: Raymond James Investment Strategy Quarterly, January, 2019) Thus, a sharp decline in stock prices is not always a reliable indicator. Clearly, the U.S. economy is doing well. Currently, we have more job openings than people looking for jobs. Some thoughts leading into the year:

- Unemployment remains very low. Wages do seem to have picked up, but not in a huge way. As Raymond James Chief Economist Scott Brown remarks in his outlook, the Fed will be watching inflation very closely.

- Brown also feels a recession is unlikely. We still have a lot of stimulus from the tax cuts act that was finalized at the end of 2017. Heck, none of us has filed a tax return based on the new act yet. Based on a few numbers I have looked at for clients, many should expect their income tax burden to go down.
- Mike Gibbs, who is Managing Director of Equity Portfolio & Technical Strategy for Raymond James feels like it could be a solid year for the markets. While earnings growth is likely to slow from over 20% to 5% to 6%, the dramatic increase in earnings last year coupled with the decline in stock prices has left the S&P trading at about 15 times earnings.
- Two major items that could affect investor attitudes are the ongoing Chinese trade war and, now, the shutdown of “non-essential” government activities. The longer those go on, the more likely it will impact the economy in real and psychological terms.
- As noted by Gibbs, “If the U.S. and China eventually work out trade differences and the U.S. economy remains healthy (two outcomes we expect), improving investor sentiment and solid earnings will allow equities to post healthy gains by the end of 2019.”
- The foreign markets had a rough year in 2018. The appreciating dollar hurt foreign returns and concerns with slowing global growth have been a concern along with many other local issues like Brexit. Still, many of the managers I talk with sound excited about the opportunities due to the relatively cheaper prices overall and that they are buying specific attractive companies -- “not the market”. In a recent conference call with David Herro, in my opinion a highly successful long time portfolio manager, he said his portfolios are trading at 50% of their intrinsic values. He also mentioned that he and his partners have been adding heavily to their portfolios.

As always, please call or email if you have any questions about your investments and financial plans. We are here to assist you in making decisions to help you reach your ultimate goals.

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In Conclusion

Thank you for your trust, confidence and friendship. As always, I am truly grateful for the opportunity to be of service. Also, I want to add a special thank you to those who referred new clients to us this year. We added 15 or 16 new clients this year which, for us, is a lot.

Best regards,

Mark

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Broad benchmarks are presented to illustrate the general price movement in one or more broad widely accessible asset class. These benchmarks are not intended to represent the security selection process or holdings, but serve as a frame of comparison using established, well known indices. These indices are not available for direct investment. A person who purchases an investment product which attempts to mimic the performance will incur expenses such as management fees, transaction costs, etc. which would reduce returns.

Index Definitions

Dow Jones Industrial Average (DJIA) -- an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.

S&P 500 -- an unmanaged index of 500 widely-held stocks that's generally considered representative of the U.S. stock market.

NASDAQ Composite -- an unmanaged index of securities traded on the NASDAQ system.

MSCI EAFE -- a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada.

MSCI ACWI -- The MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2009 the MSCI ACWI consisted of 45 country indices comprising 23 developed and 22 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Russell 2000: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Barclays Capital Aggregate Bond Index -- a measure of investment-grade, fixed rate debt including corporate, government and agency issued bonds as well as asset-backed securities. Issues must have at least 1 year left to maturity and an outstanding par value of at least \$100 million.

Barclays Capital Municipal Bond Index covers investment grade, tax-exempt, and fixed-rate bonds with maturities greater than two years.

MSCI Emerging Markets Index: designed to measure equity market performance in 25 emerging market indexes. The index's three largest industries are materials, energy, and banks.

FTSE Eurofirst 300 Index: the 300 largest companies ranked by market capitalization in developed Europe.

Nikkei 225 Index: the leading and most-respected index of Japanese stocks. It is a price-weighted index comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

Morningstar Category Definitions

Large-growth portfolios invest in big U.S. companies that are projected to grow faster than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Growth is defined based on fast growth (high growth rates for earnings, sales,

book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.

Large-value portfolios invest primarily in large U.S. stocks that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

Foreign large-blend portfolios invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

Small-growth portfolios focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

Small-value portfolios invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

World Allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.

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