INVESTMENT INSIGHT

2019
FOURTH QUARTER

LEGACY WEALTH MANAGEMENT
Right by you.

What a Difference a Year Makes!

[*from 2018's Fourth Quarter* Investment Insight]
Everyone I have ever seen on a roller coaster has their hands in the air and is screaming their heads off with many of them thinking "this is it – I'm going to die!" I had exactly that experience a few years ago on Disney's Mt. Everest coaster going backward through a dark tunnel with a Yeti jumping out at us. I really wasn't sure I was going to make it! I think that is how the most recent quarter [Q4 2018] in the market has felt to a lot of investors. "This is it—the market is finally going to crash. I'm not sure I'm going to make it."

The fourth quarter of 2018 saw a market decline of nearly 20 percent, leading us to begin our year-end 2018 *Investment Insight* with rollercoaster analogies. If you fast forward to the present and look at market returns for 2019, we can write about people with their hands in the air and screaming their heads off cheering the market results for 2019! At the time of this writing a few days before Christmas, U.S. and international equity markets are up between 25-30%.

"It's Difficult To Time the Markets"

How often have you heard us make that statement in this publication, in a meeting, on the phone, etc.? Probably more times than most prefer to hear. This year is clear proof of the risk in trying to time the markets. While most people would define risk as the possibility of a loss in their portfolio, it is also risky to miss out on a significant upswing in the market like we had this year. The market went down significantly in the last three months of 2018 but recovered all of that value in the first several months of 2019 and kept on rising. A natural inclination is to get out when times are bad (sometime during the fourth quarter of 2018), then get back in after the market has made a significant move back up when it is too late to participate in the rally. It is much better to stay the course—an investor who invested in the equity market at its peak in the fall of 2018 and who remained invested until today would still have earned a healthy return of over 9%.

To What Do We Owe the Pleasure of This Celebration?

James Liu of Clearnomics (we have shared his insights in the past) recently summarized some of the reasons for our cheerful results for 2019 by stating,

> *Perhaps the most important reason that major markets have experienced double-digit returns is that the economy is still growing at a healthy pace. Not only has the recession that many investors feared only a year ago not materialized, but very few economists now expect a recession in the near future. The unemployment rate has continued to fall to 50-year lows*

and consumer net worth is at record highs. And yet, with inflation at around 2% or less, there are no signs of the economy overheating just yet. . . Another important reason for this year's gains is that central banks are still pouring stimulus into the system. The Fed made a full U-turn from hiking rates last December to lowering rates in July. They've cut rates three times and are signaling that they are on pause for the foreseeable future. Their latest Statement of Economic Projections from last week show that they expect rates to be flat until 2021 at the earliest.

What Can We Expect in the Coming Year?

Our expectations for future returns are for them to return to a more moderate pace upward. As Mr. Liu points out above, the Federal Reserve plans to hold interest rates steady for some time to come. While that is stabilizing for the economy, it is not stimulative to economic growth. Earnings should also stabilize, but companies are going to have a hard time growing at a rapid pace unless the global economy has faster than expected growth. Unemployment is about as low as it can go, and productivity is not growing at a fast rate, so companies should continue to do well but will find it difficult to grow rapidly without new employees, new technologies, or fast-growing new markets.

There are always things that could upset the apple cart, but we have been dealing with those throughout the past couple of years (for example, trade agreements). From presidential/congressional politics to trade wars, every rumor seems to spark some reaction in the markets. Yet, at the end of the day, economic progress matters much more than politics, and companies find ways to adapt to changing trade or economic landscapes. The stock markets in 2019 are again proof of that fact. The news of the day may be imminently entertaining or frustrating, but it usually doesn't change the fundamental course of the economy, and that is what matters to your portfolio results.

2020

Happy New Year!

In closing, we hope that you had a great Holiday Season and are looking forward to a fantastic 2020. We believe that it will be another interesting year in the markets, and we remain confident that we can help you stay focused on the long-term important steps that will keep you on course to meet your goals. We thank you for your business and your continued trust in Legacy Wealth Management.

This Fourth Quarter
Investment Insight
has been written by Legacy's
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