



Wow! So Now What?!

2/19/2019 Previous close: DJIA 25,883 S&P 500 2776

On Christmas Eve I wrote one of these “market letters” in the midst of a selling squall that tested the resolve of many investors. (See “*Bad News, Good News, Great News!!*”) As it turned out, the market closed at its lowest point that very day - and has rallied approximately 18% since. Wow!! Although 2018 ended as a negative year for the stock market [S&P 500 - 4.4%, Russell 2000 (small caps) -11.0%, EAFE (international) -13.8%], as of 2/15/19 both the S&P 500 and Russell 2000 have regained all of 2018's decline and then some. Investors who didn't give in to their fears are grateful. I am thankful that none of our clients panicked/sold and have enjoyed the rebound. Whew! That's why I preach: “*Never be a one-year investor. If you can't invest for at least five years, don't invest at all.*”

So now what? What about 2019?

Each year I stick my neck out with economic and market projections. So with the promise that these will not be exactly accurate, here are my current thoughts (subject to change) on 2019:

- 1) The US continues to avoid a recession, making this the longest economic expansion on record. Note: Although this is the longest, its pace of recovery has been the slowest until recently, which is part of why it can last so long.
- 2) In addition to the economy growing, corporate earnings should as well, albeit at a slower pace than 2018.
- 3) Stocks will outperform bonds and cash.
- 4) I think the S&P 500 has a chance to gain 15 to 20% sometime in 2019. (Yes, an unusual projection for me! Certainly not a guarantee but a possibility.)
- 5) Interest rates will rise but not as much as many feared just 60 days ago.
- 6) After outperforming Value stocks for three of the past four years, Growth stocks will perform more in line with their Value brethren with Value doing slightly better.
- 7) The market will remain volatile. The calm of 2017 was not normal; 2018 was closer to normal. Look for at least one 10+% sell off sometime in 2019 - but don't freak out. Volatility happens – and is healthy! Embrace my often-used quote
“Investors must always be prepared - financially, mentally and emotionally - for a 10% correction at any time.”

And what "Herb Letter" would be complete without my saying once again to remember **Herb's Three Rules for Equity Investing** – “*Own quality, be diversified, invest in patience.*”

Here's to a Happy and Prosperous 2019!

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Russell 2000 Index 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.

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