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MARKET COMMENTARY December 6, 2018

Dow Jones Industrial Avg.	**26,458.31**	**Standard and Poor's 500**	**2,913.98**
2018(YTD) +7.0%	3rd Qtr. +9.0%	2018(YTD) +9.0%	3rd Qtr. +7.2%

Another Approach to the Holidays - "Money, to some extent, sometimes lets you be in more interesting environments. But it can't change how many people love you or how healthy you are." - Warren Buffett

Black Friday - It has arrived. Black Friday is here. Consumers will dutifully break out their credit cards or even old fashioned cash to purchase gifts for family and friends. In the not-too-distant past, retailers of all stripes waited with great anticipation for the Christmas (now referred to as the Holiday Season) rush because for many of them their annual profits depended largely on the magnitude of their sales during the brief span between this day and the first of the New Year. The term, Black Friday, indicated many retailers had to wait until this time of year to see their operations finally turn profitable. This year most retailers are anticipating a successful season due to the improved economy and the benefit of last year's tax cut, so it is incumbent on all of us to do our part.

A Time of Reckoning? - Recent holiday sales seasons have been marked by many distinct changes. Sales have become the number one attraction. A meaningful number of brick and mortar retailers are fighting to survive largely due to the success of the internet as a rapidly growing sales channel, which is exemplified by the ever-expanding reach of Amazon. One notable casualty of the change is the demise of Toys R Us, yet it has plenty of company as Sears, K-Mart, J C Penny and others are struggling to survive. As consumers have begun to enthusiastically embrace their former spending habits, it is somewhat surprising to see big ticket items taking center stage on the advertising scene. Examples of such gifts are luxury cars or travel to exotic places. For most families replacing a car was formerly a carefully evaluated decision. Has the family outgrown it? Has it developed too many problems? Is it simply too old? Can we afford it? Now they consider buying it as a gift, quite a change in attitudes.

Investors need to adopt a comparable analytical process with their portfolios. They must realize how fortunate they have been to experience nearly a decade of above-average performance in the stock market. Given the recent slump in stock prices, it is an appropriate time to evaluate the underlying fundamentals. The ten year bull market rivals in duration any other similar advances in recent history, yet over the past two months, stock prices have fallen more than they rose in the first nine months of the year. This retreat of stock prices has resulted in a return to more normal valuation levels, in spite of the continued growth in corporate profits. Although stocks are more fairly valued, it is too soon to conclude the correction is over, yet there are reasons to justify a more stable market in the near-term because the economy is continuing to advance at a respectable rate as is witnessed by the strong start to the holiday shopping season. Consumer sentiment remains high, and is supported by a healthy job market; strong consumer confidence; and a dramatic drop in gasoline and fuel oil prices. On the other hand, investors remain jittery due largely to trade concerns.

A Change in Direction - Interest rates have also grabbed their share of headlines as President Trump has added the Federal Reserve (i.e., the FED), and particularly its president Jerome Powell, to his punching bag roster. Investors are nervously watching weakness in the housing and auto markets, which have been impacted by the increase in interest rates. The truth of the matter is the FED has the unenviable task of trying to determine if the economy is in danger of overheating and if inflation threatens to re-emerge. For one who fancies himself as a pro-business President, he is not shy about making decisions that contradict that image. The latest example is his Twitter tirade against General

Motors, which announced the closing of a number of production plants because Americans are no longer willing to purchase the models made in those locations. Yes, GM received a substantial federal bailout during the last recession, but they cannot continue to produce unwanted cars. His suggestion is to change the assembly lines to produce the cars and trucks consumers want, yet he overlooks the fact retooling those plants would require considerable time and expense. The President's modus operandi is to shoot first and ask questions later. Unfortunately he appears to be disregarding the second step, as he fails to acknowledge GM's limited options.

Much of the uncertainty related to the sustainability of the economic recovery can be traced back to pronouncements he has made. The most prominent of these is his strident stance on trade issues. Although China has been his primary target, he has not limited his criticism to China alone. His harangues in the form of tariff threats have been indiscriminately employed. There is little doubt his attacks on our trading partners have cast a cloud over international trade. Next year's projections for growth have been adjusted downward because of the disruption caused by the change in the interest rate environment and the tariff scrum.

2019 - For Better or Worse? – What was shaping up as a good year for stocks has fallen victim to another October (and November) surprise. The time is running short for the market to pull a rabbit out of a hat with a year-end rally. Even more troubling are signs the economy is beginning to exhibit signs of decelerating growth. If that occurs, then corporate profits are also likely to decline and the chances for a healthy advance in stock prices in the coming year would be brought into question. In fact, the recent price volatility suggests next year will be a challenging one for both stock and bond markets.

There is a more optimistic point-of-view which projects growth next year of two to two-and-a half percent, a modest decline from this year's level. This glass half-full opinion suggests the bull market in stocks will continue for another year, unless the current sources of concern expand or new ones emerge. The best advice at a crossroads like this is to maintain good balance among assets classes and good diversification as well. If an investor believes a recession looms in the near future, the emphasis should be on quality and liquidity. On the other hand, the optimistic, risk-taking investor may find good long-term value while stocks are under attack. Finally, when feeling defensive, U.S. Treasuries or certificates of deposit offer protection from the storm. An added advantage is these safe harbor securities offer fixed rates of two to two-and-a-half percent for shorter maturities.

Year-End Moves – If reducing taxable income is a goal, one option is to realize any available portfolio losses. To the extent the losses exceed gains realized, losses up to $3,000 per year can be used to offset income. Additional amounts can be carried forward to subsequent years.

If taking a required minimum distribution (i.e., RMD) from your IRA and you use any part of it to make a charitable contribution directly to a charity, the advantage is it counts as part of your RMD, but the gift amount will be excluded from your taxable income. However it must be accomplished by December 31.

In addition to charitable gifts, you may also wish to make gifts to family (or others). The current annual gift tax exclusion remains $15,000 this year. Another option is to make gifts of appreciated securities with the same limit in mind. It is quite possible there will be little or no capital gains tax incurred by recipients, if they are in a low tax bracket. As always, your tax advisor is the person you should check with before employing any of these ideas.

Celebrate the holidays by adopting a generous spirit, and be sure to share those feelings with your loved ones. Have a Merry Christmas and a Joyous Holiday Season. Geoff, Carie and John