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MARKET COMMENTARY March 1, 2019

Dow Jones Industrial Avg.	23,327.46	Standard and Poor's 500	2,506.85
2018(YTD) -5.6%	4th Qtr. -11.8%	2018(YTD) -6.2%	4th Qtr. -14.0%

Capitalism Versus Socialism – "Individualism, private property, the law of accumulation of wealth, and the law of competition … are the highest result of human experience, the soil in which, so far, has produced the best fruit." Andrew Carnegie, Scottish-born U.S. industrialist, philanthropist, The Gospel of wealth, 1835-1919

The Beat Goes On – Patriots win number 6! Another super bowl victory for the Patriots provides a psychological lift for its fans. However, the United States economy and the stock market are in the midst of even longer period of positive movement. It has been nearly ten years since the economy and the market began to recover from the Great Recession. In spite of this progress, economists and investors maintain a cautious view of the nation's future prospects. Their hesitancy is defensible. Unlike the leadership of the New England Patriots with Bill Belichick as coach and Tom Brady as the leader on the field, the economy of the United States is dependent on a cast of many with little or no coordination. The Administration and the Congress pretend their efforts at directing the economy provide many of the successes and riches the country enjoys, when in reality it is more likely due to Adam Smith's "invisible hand". This theory by the father of modern economics simply proposes in a free marketplace the optimum results are ultimately best decided by each participant acting in their own best interest. However in this day and age, governments seem to want to call the shots because they know what is best for all, yet they never seem to be able to collect enough taxes for their grandiose programs.

Another challenge for any enterprise is the ability to anticipate the issues that may bring an end to its success, for example, the Patriots need to plan for life without Tom Brady. For the government of this country, it is devising policies which will help sustain a growth trajectory in spite of the reality of a severely divided government with many divergent points of view. During the economy's ten year recovery period since the Great Recession, much of the burden of sustaining economic growth has fallen on the back of the Federal Reserve Bank (the FED). This resulted in a protracted period of historically low interest rates which provided a much needed lift to a stagnant economy. More recently, the FED reversed direction which began to loosen its grip on interest rates by allowing them to move modestly higher. However even this modest change elicited a barrage of criticism from the President and some members of Congress. Their concern was by increasing the cost of borrowing for businesses and consumers, the FED's actions would dampen the recovery or even worse lead to a recession.

The Next Chapter – Once again politics is coming to the fore. Even though the Presidential election is nearly two years away, there is a large contingent of Democrats already vying for the opportunity to oppose President Trump. Investors would be wise to tune out the political noise emanating from Washington. A wiser course is to focus attention on the government's economic reports, which describe the progress of the economy. If these statistics show growth is persisting, then the stock market's positive momentum is likely is continue. President Trump's confrontational trade actions against China, Mexico, and Canada have resulted in a disruption in world trade that could worsen unless the parties can come to an agreement soon. He has taken a particular hard line toward China in order to persuade that country to change some of its questionable practices. It is hard to overestimate the potential harm to both the economy and the stock market if the administration is unable to negotiate fair trade agreements with these parties. The President has placed a large stack of chips on this wager. Not only does the country's future growth prospects depend on a successful resolution, but so does his chance for reelection – and his legacy.

Growth in 2019? – At the start of this year, the majority of economists were projecting a deceleration in economic growth. This was a surprise to many because of the surprisingly good results reported for the first nine months of 2018. The sudden slowdown is traceable to the desire of the FED to "normalize" interest rates, which meant a continuation of its schedule of rate increases. Businesses feared this would not only increase their borrowing costs, but would also discourage consumers from making large ticket purchases such as homes, cars and trucks. These concerns spilled over into the investment market place and caused stocks to nearly plunge into a bear market (i.e., a decline of 20 percent or more) in the final quarter of the year. Fortunately, fears about the consumer were misplaced. Consumers were still feeling the glow of the tax cuts and improving wages, so they engaged in their customary holiday spending spree. There were some noteworthy disappointments among some retail chains, but overall the numbers met or exceeded expectations. Growth in the economy this year is now pegged at two percent plus or minus one-half of one percent. This is a drop of nearly a full percent below what occurred in 2018. In spite of the anticipated decline, corporate earnings are expected to grow in the low single digits, (3-5%). Of some concern is that recent sluggishness could mean there will be little or no growth in the current quarter. If that happens, it would not be surprising to see the stock market weaken again. This more challenging environment for stocks suggests investors will need to be prepared for increased price volatility. Given the significant rally that has happened since Christmas, it is advisable to calm the emotions, and become more selective in any new purchases, while at the same time carefully scrutinizing those companies that have soared. The questions to ask are: "Can the recent price increase be justified? and "Is it time to realize at least a portion of any profits?"

The Quest for Income – Identifying investments capable of providing a satisfactory level of income remains a daunting challenge. Interest rates have moved modestly above their recent historic lows, yet they still remain well below what most investors would regard as adequate. Since 2008-2009 equities have been the great equalizer by providing meaningful capital gains as well as a growing if modest income stream. The overriding concern in the mind of many investors is the durability of the current market advance for without the inclusion of capital gains, many retired investors will be forced to invade principal. One group forced to deal with this issue is retirees required by the government to take required minimum distributions from their tax-sheltered retirement plans, such as 401(k)s, 403(b)s, or rollover IRAs. Once individuals owning such accounts reach 70 and 1/2, each year they must withdraw a larger percentage from their account(s) whether they feel they need it or not. Any withdrawals are subject to both federal and state tax.

Annual Requirement - Around the Office – Each year at this time we offer you an updated copy of our Form ADV, Part 2, which we file with the Securities and Exchange Commission. Please let us know if you would like to receive a copy or you can view it on-line at our web site – "lenkladner.com". For those of you looking forward to paying your taxes or receiving your refund, Schwab has sent the necessary tax forms. Please contact us if you feel you are missing any information. Now is also a good time to arrange for a review of your investments and plan for the year ahead. As you begin to see the results of your 2018 tax filings, you should also review your returns with your tax preparer so you can plan how to optimize your results (i.e., reduce your tax obligations) for the current year. To assist in this task, we are once again providing clients with this year's copy of "Facts You need to Know About Taxes". JML