

POTTLE FINANCIAL SERVICES, INC.

December 20, 2018

INSIDE THIS ISSUE

“Every bull market ends with a Fed policy mistake – it’s just the way it is.”

TOM ESSAYE

THE BOTTOM LINE: LET’S PLAY DEFENSE

If you’ve been watching the markets, we’ve had a lot of days in the red lately. And while we can all agree about what’s driving volatility, we haven’t heard much consensus on what comes next. Some say we are in the beginning of a bear market, some maintain a neutral market outlook, and a survey of top strategists says the market will rebound with the S&P gaining 14% by the end of 2019. We are currently in the neutral camp, but we are firm in our belief that it’s time to play a little defense.

There are a number of factors driving current market volatility: 1) the U.S./China trade war, 2) uncertainty regarding a Brexit settlement, 3) the Fed’s recent decisions regarding interest rate hikes, 4) apprehension surrounding slowed global growth and commodity declines (primarily oil), and 5) uncertainty regarding Q4 earnings.

The Fed’s Decision: The Fed didn’t offer any short-term relief on Wednesday, announcing an interest rate hike of .25% and plans for two additional rate hikes in 2019. Even though this is an improvement from the three rate hikes originally planned for 2019, some are concerned it may still be too many.

In short, we believe the future of the market is a balancing act – one that is not guaranteed, and one that will likely not be perfect. Many are predicting that the U.S. economy and earnings growth will slow and international equities will remain volatile but eventually rebound. Between the trade tensions, the delicate and difficult task of tightening monetary policy, and the unknowns surrounding earnings and global growth, we think it’s best to protect on the downside without giving up too much opportunity on the upside.

EQUITIES

With respect to equities, we reiterate our October sentiment and the need to maintain a conservative approach. And while we still have confidence in our preferred mutual fund list, we plan to explore additional funds with a proven track record of outperforming during periods of decline, and add an increased amount of alternative investments to balance risk within portfolios. We also plan to include stable, dividend paying stocks in portfolios to add income. The goal is now to ensure no portfolio is overweight in any sector or region, to diversify risk and best prepare for all of the scenarios that could occur in 2019.

FIXED INCOME

We plan to minimize high yield investments, reducing our stake in riskier sectors and carefully selecting both investment grade corporate bonds and bond funds that provide security for portfolios.

Please call with any questions. Thank you for investing through Pottle Financial Services.

Happy Holidays!

Anna Pottle & Philip Bailey

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