Winter 2019

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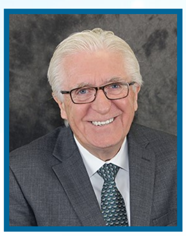
The Eagle's View



By Paul J. Tully, CFP®, RICP®

Happy New Year!

Economy & Investment Markets

We hope that it will be a great year for you personally as well as a good one for all of us financially.

What a year 2018 was! December 26th was the biggest day ever in the Dow Jones Industrial Average (in terms of points), up 1,086 points, preceded by the worst Christmas Eve performance ever, and followed on the 27th by the biggest intraday point reversal of 871 points. Christmas Day in the middle of all of it. It was quite a week and quite a year. I'm glad it's over.

The US equity markets were all down for the full year, after 9 years of positive performance and all that decline resulted from December's dramatic drop. It is normally a pretty good month, but was the worst December performance since 1931.

For the year, the S&P 500 was down 4.4%, the Dow Jones down 3.6% (both including dividends they earned) after both rising 9% for the first three quarters of the year. Averages for smaller and mid-sized US companies were down even more. Foreign markets – both developed and emerging – were down over 10%. Performance over the past decade, however, remained quite good with the S&P 500 averaging 13.1% over the past 10 years and 9.8% per year over the past 50 years. We would expect future average returns to look a bit more like the 50-year average rather than the 10-year one.

I think I have shared with you the very different results when someone is not fully invested for the entire last 10-year period, but they're worth re-sharing. For example, if you missed the 10 best days during those 10 years, your annual return drops from 13% to under 8%. Conversely, if you were smart or lucky

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 stock of companies maintained and reviewed by the editors of the Wall Street Journal.

enough to miss the 10 worst days, your return jumps to 18% per year. Of course, I've never met anyone on either side of these results, but have known many more who will miss the 10 best by getting in near the top rather than readily investing after a 20% decline. It's been repeated throughout human investing history.

The December market results were a bit of a surprise given that many people thought that after October (which was the worst month for the S&P 500 since 2011) and November (a reversal that showed signs of a stabilizing market) we would continue to rebound. Add to that a Morgan Stanley study that showed 100% of the mid-term election years since World War II had positive results from election day through year-end – at an average of 10% – and I think that many people felt the worst was over for 2018 in October. As a side note, 322 of the S&P 500 stocks were down for the year.

I have read research and have been on several investment firm conference calls since mid-December to get some insight as to what happened, and to also get a broad diverse outlook for 2019.

Best news first: Virtually all the "reasons" for the breathtaking ups and downs could improve over the first half of 2019. Not 100% fixed, but each may show enough progress to ease concerns about a greater downturn in investment markets. There will be a resolution of the partial government shutdown and some progress on the trade war with China.

"Virtually all the 'reasons' for the breathtaking ups and downs could improve over the first half of 2019."

All this market decline is happening while the US economy is growing at the fastest rate in 12 years, inflation remains low, as do interest rates. Gas prices, as a result of a 41% decline in oil prices in the 4th quarter of 2018, should help keep inflation low. Interest rates, though ticking upward, are still below levels of 10 years ago and are likely to remain there for a while. Interest rate increases, originally expected to be 3 more in 2019 after 4 in 2018, are now expected to be between 0 and 2 increases.

Unemployment is low, and as I finish this letter on January 4th, the December jobs report announced that 315,000 new jobs were created: a clear sign that the economy remains strong and growing. We have a very robust labor market and skilled jobs are lacking at times for qualified candidates. Manufacturing growth in 2018 was the best in 23 years! Wages rose 3.1% in 2018, the best year since 2009.

Holiday retail sales – as measured by Mastercard – had their best year in 6 years (with online sales up 19%), earnings for US corporations are up over 25% for the year and 2019 projections are for an additional 8% (2018 was an unusual year because of the impact of reduced corporate taxes). We are also now the world's largest oil producer as of 2018. Auto sales are on a pace for over 17 million sales – a very strong market. And for the first time since 2006, there was not a single bank failure in the US, according to the FDIC.

Our economy is completing its 113th month of expansion going back to 2009, corporate profits are at a record high, unemployment at almost a record low, and the US stock market indices all hit record highs in 2018 before retreating in the 4th quarter.

On the negative side, the US and global economies will grow, but at slower rates than in 2018. In 2018, the 2nd quarter grew over 4%, third quarter was almost at 4%. In 2019, growth projections seem to be falling between 2.5 and 2.8%, including from the government. A 4% growth rate is not sustainable, but 2.5% probably is (though it's not very exciting).

We also will be dealing with some political issues that while not usually determinative of the economy, seem to be more visible today. Included in that are three things: a new Congress with control of the House of Representative switched to the Democrats, the Mueller investigation, and the beginning of the 2020 presidential campaign.

This market feels worse than it is (a 4.4% decline in 2018 is not nearly the 36% decline of 2008) and it feels worse because the economy is doing fine. I think it's fair to say that no one whose advice we follow is calling for a recession in 2019, unless something not currently in play should occur, referred to as a "black swan" event.

I think we would all agree that the financial media plays a significant role in people's feelings of optimism and pessimism. Having real time access to every disaster on your phone or watch contributes to the sense of unease. Studies have shown that people react to negative stimulus more than to positive so it's certainly more newsworthy to report some political or business skirmish than to report record holiday sales. *The drumbeat of low intensity negativity takes a toll on each of us.*

At the same time, sometimes the bad news is just bad news and does instill fear as it should and clearly the disfunction we are witnessing in

Toys for Tots Total—2018

We would like to sincerely thank all of our wonderful clients and associates who donated to our toy drive this year.

We collected 110 toys in total and were overwhelmed by everyone's generosity this holiday season.

We decided once again to match the toy donations with our own monetary donations to both Angels of God in Pitman and the Gloucester County Animal Shelter.

A special thanks to all of those who donated!

our nation's capital will test many people's confidence. This can impact decisions on spending for consumers, businesses and professional practices, especially with expensive items like houses, autos, etc. Less confidence equals less sales. It's simple.

I understand that and have dealt with diverse political views among our clients for over 40 years, fortunately not in the same room at the same time. Recent media coverage of the mess in Washington (it's both sides, I'm not picking on anyone in particular) has a bit more direct impact on investment markets due to the involvement of the Federal Reserve, trade and tariff issues, and what seems to be a digging in by both political sides on every issue.

My conclusions mirror those of Dr. David Kelly, JP Morgan's Chief Market Strategist, who stated in a recent conference call, "the US economy will slow but not stall" (he often refers to the economy as a "healthy tortoise"). Another expert whose opinion we value highly is Dr. Jeremy Siegel from the University of Pennsylvania's Wharton School of Business who feels that the US stock market is undervalued and could rise as much as 15% in 2019. The average projection for the stock market by a year-end Barron's survey is for attainment of a level of 2,975 for the S&P 500, with JP Morgan responding in that survey for a 3,150-year end level. Either number would be a substantial improvement over the 2018-year end value of 2,507. On a conference call Wednesday with senior investment analysts from Raymond James, their target was 2,957: an increase from year-end of almost 20%.

Investment markets have done very well in the past 10 years at a time where US growth was much slower than it is today, so this economy, even if it slows a bit, can support higher stock prices. Although I don't like to count on history to repeat, sometimes that history is significantly long enough that we should at least note it.

The third year of the presidential term, on average, has been the best. The second year has been the worst. If the worst is last year's -4.4%, we will gladly accept that. Whether the 3rd year will be the best for this administration is unknown. The second historical fact is that in the past 74 years, there have only been 3 times where the S&P 500 was down 2 years in a row. Two of those occurred after the "dot com" bubble burst and we had the recession around September 11th in the early part of this century. The other occurred in 1939 at the beginning of World War II. In each case there was an accompanying recession, which we do not expect this year.

I have a concern that I think must be resolved and may not be soon, though hopefully progress will be made. That concern is global trade, which I think is vitally important to US investors and consumers.

There is little if any question that China cheats in terms of stealing technology from all over the world, not just from us. That must be stopped and may be easier said than done. We also rely on China for a lot of other things. For example, they buy most of our soybean crops, but not today because of the tariffs. So instead of selling

soybeans to the Chinese, we have them stacked up in the Midwest and the federal government is spending over $10 billion in subsidies to our farmers. We have a trade deficit with China because we are a nation of consumers and we consume a lot of stuff they make cheaper than we can.

As a result, many items we all buy are far less expensive than if produced here and the savings we achieve is used to buy more things, or go on vacation, or out to dinner, etc. I don't think there is any magic to that concept; that buying phones, TVs etc. at rates far less than if they were made here. We don't even have the vast number of workers, estimated to be 1 million, that Apple employs in China to make iPhones, iPads, etc.

The US Congress (both parties) is piling on government debt at $1 trillion per year for as far as you can see (almost $22 trillion as of year-end) and someone must lend us that money at reasonable rates; to a large degree, its China. Should someday they demand a higher interest rate for these loans, you will see our deficit and the interest payments to fund it balloon and have a significant negative effect on our economy.

Fixing this problem would send a clear positive signal to our other trading partners and the global community as well. Let's get this done…or at least make a little progress. As I recently read in the Wall Street Journal, "A trade war is the only war where all the guns are pointed inward." Nobody wins. Both the US and China need to make a deal for the sake of each country and the global economy.

After all, like it or not, China, a country with over 100 cities with 1 million or more population (we have 10) whose largest city has 22 million people (ours, New York, has 9 million) and whose economy, in a bad year, grows at 6+% (a good year for us is 3%), needs to be an ally in every way we can achieve that, not an adversary.

Financial Planning

We continue to base our planning around the concepts of longer lives, longer retirements, lower investment returns and possibly higher taxes, especially in those states where the limitation on property tax deductions will result in higher taxes.

We have just experienced some version of the lower investment returns in 2018 and though we expect positive returns over the coming years, we do expect them to be less overall than the past 10 years. Having said that, we are constantly seeking ways to deliver great client outcomes through asset management (see Chris' announcement under News at EWS) and tax savings and reducing volatility and risk.

News at EWS

Credentials, Licenses & Philanthropic Work

Chris has now attained a CIMA designation ("Certified Investment Management Analyst"), which is somewhat rare in our profession, but truly an accomplishment that will directly benefit our clients. A CIMA is generally held by investment managers at asset management and mutual fund firms. He had a lot of study to prepare for the 4-hour final test including spending a week at the University of Pennsylvania Wharton School.

Chris also has just finished a 2+ year term of serving as Board Chairman for the Boys and Girls Clubs of Gloucester County. His last endeavor was the annual event honoring a prominent community leader: Dr. James George. This year, the organization raised over $200,000 for the kids of our community (an organizational record).

Our Office Manager **Melissa** passed the Series 7, 66, 9 and 10 within 4 months! In addition to now being both a registered representative and investment advisor representative, her Series 9 and 10 licenses allow her to eventually have compliance oversight duties delegated to her and she will become our Operations Manager.

Pictured on the bottom left are **Paul** and **Kathy** with Dean Sue Lehrman of the Rohrer College of Business at Rowan University. The family donation is to support two causes very important to the family. The first is for the study of Alzheimer's Disease at Rowan's College of Osteopathic Medicine. Kathy's mother, as well as people we all know, have suffered from this horrible disease. The second initiative is to support the Rohrer College Entrepreneurial Studies Department, as both Paul, Kathy and their family believe that supporting future business people will positively impact the entire community.

As you know **Paul** serves on the Rowan Foundation Board of Directors and feels very strongly that the university's core mission of positively impacting our community economically is very worthy of his time and contributions, including the two annual Eagle Wealth Strategies scholarships to students in Entrepreneurial Studies. 2018's recipients were Brianna Robertson and Josh Sivel (picture on next page).

In October, **Steffanie** and her United Way group partnered with the Mullica Hill Rotary Club to install a Born Learning Trail at the William Wilt Complex in Mullica Hill. The trail was installed by the Harrison Township Recreation Commission, and a ribbon cutting ceremony (below) was held to celebrate the Trail on Tuesday, October 16th.

Dana and her husband Andrew are expecting their baby girl in early January. As we write this, the baby has not yet been born, but by the next newsletter we will have a nice picture to share of their new bundle of joy!

Chris visited Miami in the first half of December and went to the Zoological Wildlife Foundation where he got the chance to play with a bunch of lion, tiger, and jaguar cubs — look how cute!

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Eagle Wealth Strategies is not a registered broker/dealer and is independent of Raymond James Financial Services located in West Deptford, New Jersey. Our team of financial advisors provides comprehensive financial and retirement planning services to successful individuals and families, retirees and those nearing retirement, single, widowed and divorced women, and attorneys, accountants and physicians.

Each of our financial advisors – Paul Tully, Steffanie Lerch, Chris Tully, and Jessica Ortega – holds the CERTIFIED FINANCIAL PLANNER™ certification and the Retirement Income Certified Professional® certification. The CFP® credential is awarded to a select number of financial professionals who satisfy the CFP® Board of Standard's rigorous educational and examination requirements, and who agree to adhere to its high level of ethical and professional standards. In order to receive the RICP® designation, one must meet experience requirements and ethic standards, successfully complete three courses which include rigorous tests to pass, and agree to comply with The American College Code of Ethics and Procedures.

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