**Seaton Financial Advisors, LLC**

**E-Newsletter**

**December 2018**

**U.S. Stocks**

The fourth quarter was a disaster for US stocks as investors began to worry that stock prices had gotten too far ahead of the forecast for economic growth and corporate profits.  By holding short term interest rates to zero for the better part of 10 years, the Fed has fueled a debt explosion that threatens to dampen economic growth for the foreseeable future.  Zero interest rates have benefitted stock prices by incentivizing corporations to buy backs millions of shares and “forcing” retail investors to buy stocks because alternative investments (bonds, CDs, money markets, etc) offered almost no return.  With interests rates now at the lower end of a reasonable range, investors are beginning to choose alternatives to stocks and corporations are scaling down stock “buy-backs”.  So, lower demand from corporations and individual investors is having a depressing effect on stock prices. Certainly there are many other factors that affect stock prices (global growth, trade policies, political turmoil in Europe, etc.) but right now, debt levels and Fed interest rate policies are two of the largest drivers.

 For the fourth quarter, the SP500 declined about 13.5% with mid and small cap stocks doing even worse (15% and 18% respectively).  This left investors with  negative total returns for the year as shown below.

 Following are recent  “total returns” (dividends plus price change) for the three major categories of US stocks:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Category** | **Type** | **Ticker** | **Oct.** | **Nov.** | **Dec** | **YTD** |
| US Stock | Large Cap (SP500) | IVV | -6.82% | 1.92% | -8.86% | -4.46% |
| US Stock | Mid Cap | VO | -8.36% | 2.34% | -9.79% | -9.22% |
| US Stock | Small Cap | VB | -10.12% | 2.19% | -11.10% | -9.33% |

The following chart shows the monthly and YTD ROR for the SP500:

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**Sector Review**

Only three of the ten sectors had positive RORs for the year led by Healthcare at 10.7%.  Beginning this summer we saw a shift from the more aggressive sectors such as technology to the more defensive sectors such as healthcare and utilities.  This was a pre-cursor to the broad-based  stock price declines in Q4.  Energy was the worst performer due to the combination of slowing global demand and an ever-increasing supply.

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| --- | --- | --- | --- | --- | --- |
| **Sector** | **Ticker** | **Oct.** | **Nov.** | **Dec** | **YTD** |
| Healthcare | XLV | -6.78% | 8.08% | -9.35% | 10.73% |
| Utilities | XLU | 1.98% | 3.54% | -3.99% | 3.97% |
| Consumer Discretionary | XLY | -10.10% | 2.48% | -7.95% | 1.59% |
| Technology | XLK | -8.00% | -1.96% | -8.36% | -1.64% |
| Real Estate | VNQ | -2.93% | 4.67% | -7.96% | -6.03% |
| Consumer Staples | XLP | 2.00% | 2.27% | -8.91% | -8.08% |
| Financials | XLF | -4.70% | 2.63% | -11.12% | -13.03% |
| Industrials | XLI | -10.87% | 3.81% | -10.65% | -13.24% |
| Materials | XLB | -9.18% | 3.80% | -6.88% | -14.85% |
| Energy | XLE | -11.33% | -1.56% | -12.43% | -18.24% |

**Foreign Stocks**

Foreign stocks substantially underperformed US stocks in 2018 due to declining global growth (particularly in China), political dysfunction in Europe (including Brexit) and financial weakness in the EU(Italian banking and economic crisis).  The strong US dollar also depressed corporate earnings in the emerging markets due to the unfavorable currency translations.

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| --- | --- | --- | --- | --- | --- | --- |
| **Category** | **Type** | **Ticker** | **Oct.** | **Nov.** | **Dec** | **YTD** |
| Foreign Stock | Developed Mkts.  | EFA | -8.13% | 0.50% | -5.35% | -13.81% |
| Foreign Stock | Emerging Mkts.  | EEM | -8.96% | 4.90% | -3.50% | -15.51% |
| Foreign Stock | Total | VXUS | -8.56% | 1.68% | -4.90% | -14.42% |

The following chart shows the monthly and YTD RORs for the total foreign stock index:



Ugly.

**Precious Metals**

Gold and silver had a strong December as investors sought safe haven from the stock declines.  However, they both ended the year in negative territory:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Category** | **Type** | **Ticker** | **Oct.** | **Nov.** | **Dec** | **YTD** |
| Precious Metals | Gold | GLD | 2.12% | 0.34% | 4.94% | -1.97% |
| Precious Metals | Silver | SLV | -2.33% | -0.67% | 9.01% | -9.17% |

**Bonds**

In general, bonds had a very good December (except for High Yield) as investors sought safety from declining stock prices.  US Treasury and Municipal bonds had a relatively good year but Corporate bonds (including “High Yield”) declined in value. This is indicative of the flight to safety (i.e. government bonds) that began mid-year.   The most widely watched and invested in index (AGG) finished with a -1.25 Total Return, so bonds, in general, did not help to offset losses in the stock portion of portfolios.

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| --- | --- | --- | --- | --- | --- | --- |
| **Type** | **Maturity** | **Ticker** | **Oct.** | **Nov.** | **Dec** | **YTD** |
| U S Treasury | Short | SHY | 0.15% | 0.38% | 0.76% | 1.46% |
| U S Treasury | Medium | IEI | 0.07% | 0.82% | 1.78% | 1.36% |
| U S Treasury | Long | TLT | -2.93% | 1.79% | 5.85% | -1.60% |
|  |  |  |  |  |  |  |
| Inflation Protected | Short | STIP | -0.48% | 0.02% | 0.13% | 0.56% |
| Inflation Protected | Medium | TIP | -1.52% | 0.48% | 0.53% | -1.41% |
|  |  |  |  |  |  |  |
| Corporate Bonds | Short | VCSH | -0.07% | -0.08% | 0.83% | 0.93% |
| Corporate Bonds | Medium | VCIT | -0.88% | -0.21% | 1.56% | -1.73% |
| Corporate Bonds | Long | VCLT | -3.58% | -0.82% | 2.83% | -7.03% |
|  |  |  |  |  |  |  |
| Municipal Bonds | Short | SUB | -0.13% | 0.56% | 0.76% | 1.85% |
| Municipal Bonds | Medium | MUB | -0.56% | 1.11% | 1.35% | 0.94% |
|  |  |  |  |  |  |  |
| High Yield Bonds | Medium | HYG | -1.98% | -0.40% | -2.09% | -2.02% |
|  |  |  |  |  |  |  |
| Total US Bond Index | Medium | AGG | -0.64% | 0.52% | 1.98% | -1.25% |

Following is a chart of the monthly and YTD RORs for the total US bond market index (AGG):cid:image009.png@01D4A437.B5203390 |  |  |  |  |  |  |

**Looking Ahead**

Despite the Q4 carnage, there are several bright spots for stock investors for 2019.  The forecast for US economic growth and corporate profits is relatively strong for 2019 and inflation is modest.  The Fed is beginning to lower their expectations for future interest rate hikes and will hopefully dial back the bond-selling program.  Tariff negotiations with China are an on-going concern but neither country wants to die on that hill.   2019 can be a positive year for US stock prices if the rest of the world holds up and the Fed/Government doesn’t do anything stupid.  However, investors need to be aware of the risks and make sure their portfolios are structured accordingly.

**Quote of the Month:**

Pain is a part of life, suffering is optional.

terry

**Terry L. Seaton CPA, PFS, CFP(tm)**

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[**www.seatonfinancial.com**](http://www.seatonfinancial.com)

**4406 Coastal Hwy, St Augustine, Florida 32084**

**Tel: 904-825-4203, Fax:  904-825-2663**