

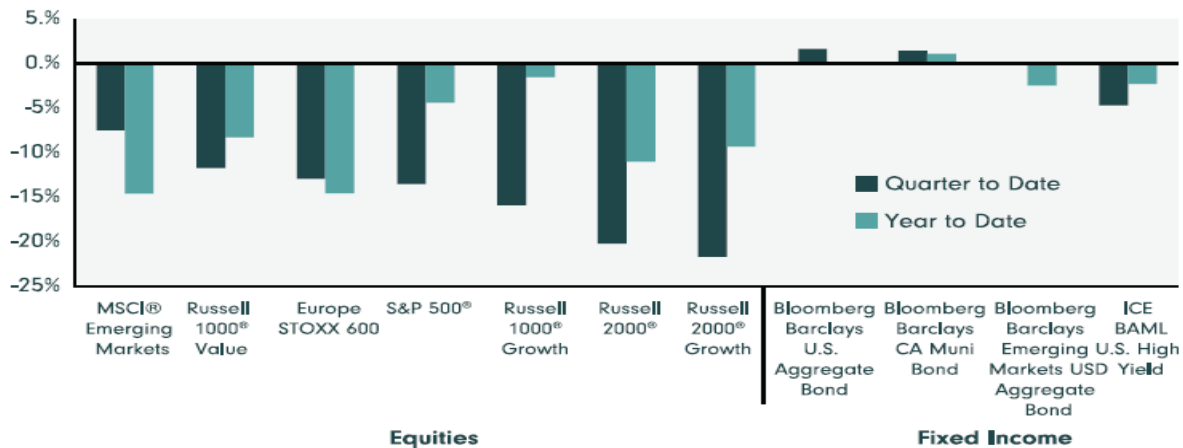
January 2019

We, at The Lubitz Financial Group, hope you are starting off this Year of the Brown Earth Pig, according to the Chinese Lunar year 2019 with good cheer and hope. For those of you born in the year of the Pig – years 1935, 1947, 1959, 1971, 1983, 1995, 2007, and 2019 – according to Chinese astrology, 2019 is a great year to make money and a good year to invest! *I am not kidding – this is really what Google says.* It is also going to be full of joy, a year of friendship and love for all signs, and an auspicious year because the Pig attracts success in all the spheres of life. Let’s hope this is a portent of things to come.

For those of you who have read my emails about the investment world during the last quarter of 2018, this may be old news, so I will keep it brief. For those of you who have not, I think it is important that you are aware of the key results as they were quite depressing. The year was quite challenging for investors as most asset classes experienced falling prices amid higher daily volatility – the ‘Maalox Moment’ seemed to happen almost weekly, culminating in the worst Christmas Eve drop for U.S. Stocks ever. The last 3 months of the year in particular were a tough period with the S&P 500 Index declining 13.5% in the quarter, bringing the full-year return to -4.4%. That index was just on the brink of bear market territory during the final quarter before starting to stabilize a bit at the last week of the year.

Index Returns

Periods ending December 31, 2018



Data is obtained from Bloomberg and is assumed to be reliable. Past performance is no guarantee of future results.

Almost every U.S. stock category saw 4th quarter returns wipe out their gains over the first 9 months of the year. Small Company stocks were particularly hard hit during the quarter at -20%, finishing down 11% for the year. Relatively good news for our portfolios, which have a “Value tilt”, is in the 4th quarter the Growth stock were down 16% vs. Value stock at negative 11.7%. Cold comfort I know, but one of the reasons we have a higher allocation to Value type funds is that they tend to hold up better in dropping markets, as evidenced by this quarter’s results. They did what they were supposed to do for you.

Overseas markets didn’t provide much relief either with both the Emerging Market and European stocks posting drops for the year of 14.5%.

When looking at the bond markets, results were dismal as well. The big surprise was that in the last quarter, the 10 year U.S. Treasury yield exhibited a sharp drop from 3.06% to 2.68% in spite of four short term rate increases by the Federal Reserve. The overall U.S Bond index ended the year 'flat' at barely a positive result of +0.01%.

The combination of continued rising short-term interest rates, (although recent signs from the FED are they are going to slow or cease further increases in the near term due to the recent economic uncertainty) and slowing corporate profit growth is not a favorable backdrop for stocks. There continues to be little if any progress on our trade talks with China and this is beginning to have an impact on our purchasing power. This is hitting home for Norm and me as we are in the process of 'downsizing' in our Oakland home to a condo and renovating it to suit our needs. The cost of appliances, building materials and furniture has gone up a lot due to the tariffs and is directly hitting our pocketbook. PLUS now with the government shutdown, the ports are getting backlogged because Customs Officials are not there to process goods movements. Further, with the continued *insanity (IMO)* of the government shutdown, each week of this impasse impacts our economy. Investor angst over the ongoing partial shutdown has been rising with estimates of the damage moving up. Some economists have recently suggested a shutdown lasting the entire first quarter could wipe out most or all of the quarter's gross domestic product (GDP) growth (*Wall Street Journal*).

Risks continue to surround us and bad news is what we hear. Probably the biggest news is about BREXIT and Tariffs and Government paralysis. The good news gets short shrift, but there is good news, mostly around labor conditions – unemployment at low levels and wage growth continues. So, as Liz Ann Sonders, Schwab's Chief Investment Strategist, opined in her January 16th webcast, "U.S. stocks have staged a nice rally to start the year but we don't believe it reflect an all-clear sign. We continue to recommend investors adopt a highly-disciplined approach to asset allocation, especially around diversification and rebalancing. Risks to both the U.S. and global markets/economy remain, and we expect continued bouts of volatility." Well, we have a highly-disciplined approach to asset allocation, with broad and specialized diversification and you should be aware of our regular rebalancing and tax loss harvesting for you, so we're doing what needs to be done.

People generally hate uncertainty and look for guarantees. But if you are going to invest and also exist in this world, it means learning to accept uncertainty. And the best way to deal with ongoing uncertainty in financial market is to check your emotions at the door and stick to the well-thought-out investment plan we've created together. One that acknowledges that markets will rise and fall and that reacting rashly to either scenario isn't a likely path to success, nor to a good night's sleep.

What can you expect for your portfolio returns as you look at your end of year report? Not surprisingly the 2018 returns were negative, although less than double digits – around 5 – 8% negative. Our diversification and alternative investments did what we wanted them to – keep your investments from dropping down a hole as some of the markets did.

We, at the firm, continue to slog through our computer and program conversions with our new outsourced service provider. We are changing virtually all of the software programs we have been using for the past decade and the team has been embracing the change because we know we will come out of this "tunnel" with a more efficient and streamlined operations environment. BUT some days we do feel like pulling out our hair – at least I do!

On a final communication note, the SEC (Security and Exchange Commission) requires that all Registered Investment Advisors, on an annual basis, deliver to all clients, a copy of our ADV Part 2 whenever we have, what they consider, material changes. This document, which specifies our investment style, assets under management and key officers of our firm (among other information) will be delivered via electronic delivery, prior to March 31st, 2019 to those of you who have signed an Electronic Communications Agreement and via USPS to those who have requested/not signed the agreement. Our current ADV is always posted on our website for your review [The Lubitz Financial Group ADV Part 2A and 2B.](#)

We look forward to meeting with you this year and getting caught up on your plans for 2019. We appreciate your working with us and inviting us into your lives.

Best personal regards,

Linda Lubitz Boone, CFP® and the Team at The Lubitz Financial Group