> A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.
> Winston Churchill

Year in Review

- The Federal Reserve rattled markets by raising its benchmark interest rate in December, bringing the total number of rate hikes in 2018 to four. Short-term interest rates will keep climbing, but the central bank signaled that there could be two interest rate increases this year instead of the three it previously projected.

- In December, China and the United States agreed to a ceasefire in their bitter trade war on after high-stakes talks in Argentina's G20 summit between US President Donald Trump and Chinese President Xi Jinping, including no escalated tariffs on January 1.

- The federal government partially shut down two weeks ago when the Senate failed to pass a spending bill that included the border wall funding, beginning a standoff that has carried into the new year.

BENCHMARK CENTRAL 2018 YEAR END

Citi World Gov't Bond Index 3-7 Yr. Hedged	2.25%
Russell 2000 (US Small Cap index)	-12.18%
S&P 500 (US Large Cap index)	-6.24%
Wilshire 5000 (US Total Market index)	-7.36%
MSCI EAFE (International Stock index)	-16.14%

Top Four Myths About Diversification

♦ Myth 1: Diversification is fail-safe.

No investment strategy is without its risks, which is why simply diversifying a portfolio cannot produce miracles. It cannot eliminate the possibility of negative returns. Unfortunately, there is no crystal ball that predicts the way any stock, bond, or market will behave, only hindsight. While past performance helps to inform us about the size of potential movements and how they move in tandem with others, attempting to predict the precise short-term trajectory of investments is a guessing game.

♦ Myth 2: You're diversified if you have investments across multiple brokerage accounts.

Investors may also believe that they are diversified when they are invested in different "places." For example, if you've accumulated several retirement accounts from working at multiple employers over the years, holding accounts with different brokers does not translate to being diversified, especially since these accounts are generally invested in similar underlying assets. If you have three funds that all invest in U.S. large-cap stocks (say, those appearing on the Standard & Poors 500 index), held at different places, it's possible you're paying more than you would than were they all managed by one broker.

♦ Myth 3: You're diversified if you own shares in multiple stocks.

Investors who simply own a large number of well known U.S. stocks may think they have a well-diversified portfolio, but they likely do not. Diversification is not just a matter of holding numerous investments but an adequate number of investments that move independently or opposite from one another. Holding investments in both Ford and GM, for instance, is not actually a very diversified strategy.

♦ Myth 4: You're diversified if you invest in complex assets.

Constantly adding to a medley of assets makes a portfolio more complicated, expensive, and no less risky—possibly even riskier. Investing in a newer breed of well-marketed exotic funds and more asset classes may also provide a false sense of security in diversifying, but remember: Complexity is not diversity. Costs are often higher for vehicles that hold exotic assets, and the more investments, the more trading and transaction costs involved, and thus more fees.

Quarterly Client Webinar

Date: Thursday, January 24th, Starting time: 12:30 pm, Eastern Standard Time

Meeting Number: 196 394 921

Website link: https://meetings.webex.com/collabs/#/meetings/detail?uuid=M90PRIN884MEGHNZBNFLFXLXUA-5MWV&rnd=145569.79402

To join the teleconference only: US TOLL: +1-415-655-0001 Access code: 196 394 921

If you cannot join us for this important webinar, we will post a recording of the entire presentation on our website at www.afadvisors.com.

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