
> "Be fearful when others are greedy and greedy when others are fearful."
>
> Warren Buffett

### Year in Review

- The Federal Reserve changed their decision on interest rates. In 2018, they were predicting 2-3 interest rate increases for 2019. Now they are predicting no rake hikes for this year.
- The Federal Reserve also decided to discontinue their balance sheet reduction process by September.
- 10 year Treasury yield began the year at 2.66% and has declined to 2.41% month ending March. This represents a drop of over 9%. As yields decline, the underlying bond prices tend to increase.
- Regardless of the how the markets perform, it's important to keep your attention on your total financial Net Worth including paying off credit card debt, car loans, and properly managing your mortgage balance.

### BENCHMARK CENTRAL 2018 YEAR END

| | |
|---|---|
| Citi World Gov't Bond Index 3-7 Yr. Hedged | +1.77% |
| Russell 2000 (US Small Cap index) | +14.18% |
| S&P 500 (US Large Cap index) | +13.07% |
| Wilshire 5000 (US Total Market index) | +13.66% |
| MSCI EAFE (International Stock index) | +9.04% |

## How Quickly things can Change

On December 24, 2018 the fear in the equity markets was at its highest for 2018. December 24th saw a Dow decline of about 2.3%, a S&P 500 decline of about 2.0, and a Russell 2000 decline of about 1.8%. What made these declines worse was they were after a few months of general market declines and AFTER the market had reached a peak market value in 2018. Market sliding over months and increased market volatility began to erode the confidence of investors. There were calls for continued volatilely and possibly more negative market returns for 2019 and beyond.

Since December 24th, the equity markets have had a total reversal. Between December 24th and the month end March close, the Dow is up about 18.9%, the S&P 500 is up about 20.2%, and the Russell 2000 is up about 21.5%. There are more than several reasons for this reversal including Fed interest rate revisions, China trade deal improvements, investor sentiment, and a fair earnings season.

Everyone enjoys watching their investment account appreciate in good markets. Good equity markets have the ability to mask the actual risk of equities. This is never more apparent when the markets are in meaningful decline like in late 2018. While investors inherently understand that equity markets can go down, they are not always prepared for the length or severity of the declines. Expectations are disconnected from reality.

Why does all this matter? Investment allocation. It's imperative the investor has an allocation they are comfortable in both UP and DOWN markets. One could make the argument that being able to handle down markets is more important than enjoying the up markets. The reason why the down markets matter more perhaps is this is when investors are more apt to want to make a change. This can lead to the investor 'selling low'. This is compounded when the market makes a significant recovery like we saw at the end of December and throughout the 1st quarter of 2019.

Your allocation is about *your* goals and *your* attitude to risk. It's not a competition between friends of who is making more or losing less. Every situation is different and should be treated as so.

If the fall-winter market decline taught us anything its this: There is always risk to investing. It may not seem that it's there but it doesn't take much for the markets to become volatile. Be prepared. If you want to discuss your allocation, we are here to help.

## Quarterly Client Webinar

Date: Thursday, April 18th, Starting time: 12:30 pm, Eastern Standard Time

Meeting Number: 731 878 305

Website link: https://afadvisors.webex.com/afadvisors/j.php?MTID=m8fd66ba59985c81f78518333cb6a9f1e

To join the teleconference only: US TOLL: +1-415-655-0001 Access code: 731 878 305

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.