SWM INVESTMENT REPORT DECEMBER 2018

3 Things You Need to Know

1. Higher Volatility Will Persist

In 2017, the markets were known for low short-term rates and low market volatility. 2018 and 2019 will be known for higher short-term rates and higher volatility in both stock and bond markets. In 2017, the S&P 500 index had 0 days with daily declines of 2%. We are coming out of a low volatility period into a choppier environment. Through yesterday, there were already 11 days with 2% daily declines in the US markets. International and Emerging markets are faring much worse.

2. **Expect a Flat Yield Curve or Inversion**

As short rates have been moving higher, the long end of the yield curve has been moving up slower than anticipated. This has made the yield curve flat and a possibility for it to invert seems expected in the near-term. What does this mean?

The short end of the yield curve can be controlled by the Fed pushing up federal funds rates, but the long end of the yield curve is supply and demand driven by markets and other factors like inflation expectations. The lower-than-expected inflation number, the lower the bond yields that are 5-10-15 years out. As you can see there is very little difference in rates when you lend the government money for one year or lock into a rate for 10 years. If the 10-year yield goes below the 1-year, then we can call this an inverted yield curve.

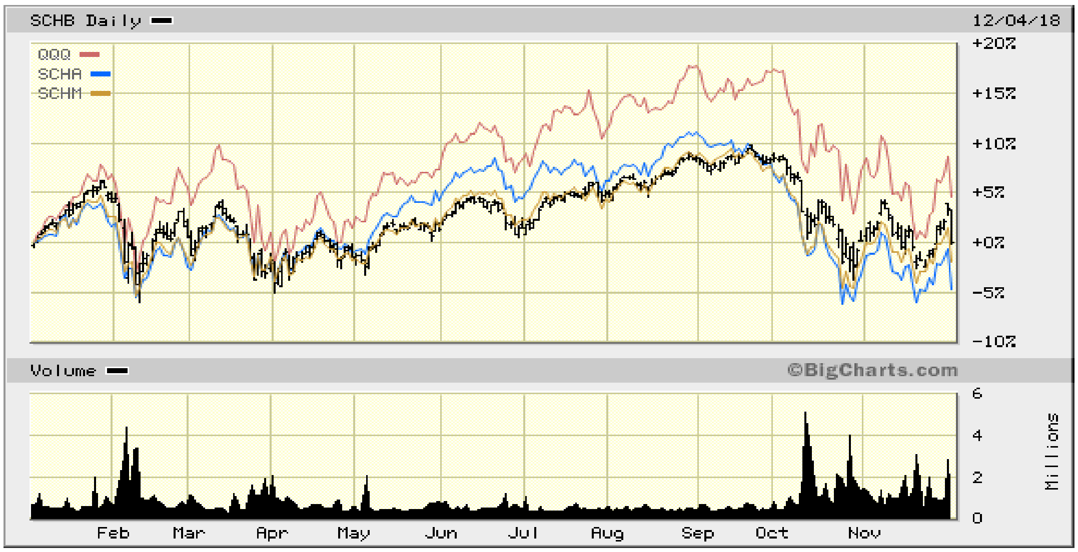
Instruments	3M	6MO	9MO	1YR	2YR	3YR	5YR	10YR	20YR	30YR+
U.S. Treasuries	**2.40**	**2.557**	**2.66**	**2.789**	**2.837**	**2.831**	**2.847**	**2.966**	**3.118**	**3.222**

3. Signs of Late Stages in Economic Cycle

Once the yield curve inverts, pundits will continue to write about an upcoming recession as this is an “absolute and guaranteed signal”. According to historical data, the last time the curve inverted was in November 2005. An interesting fact is the stock market continued to make new highs for 23 months after the curve inverted before peaking in October 2007. A yield curve inversion also occurred in May 1998. And in this instance, the S&P 500 did not peak until March 2000 and a recession started a year later in March 2001.Yes, market timing is almost impossible and small tweaks for a goal based portfolio are always better than rash moves to pull everything and buy back in.

Historically, an inverted curve means that the economy is in the late stages of the growth cycle. Is it the 8th inning or 9th inning? Nobody is certain, but we may see that slower growing stocks, or value stocks that pay dividends will attract money over growth stocks within the next year.

In the markets, we have a chart YTD of US CORE 4 GROWTH & US CORE VALUE ETFS. Charts do not include dividends. Emerging markets and International charts are too ugly too publish at this time.

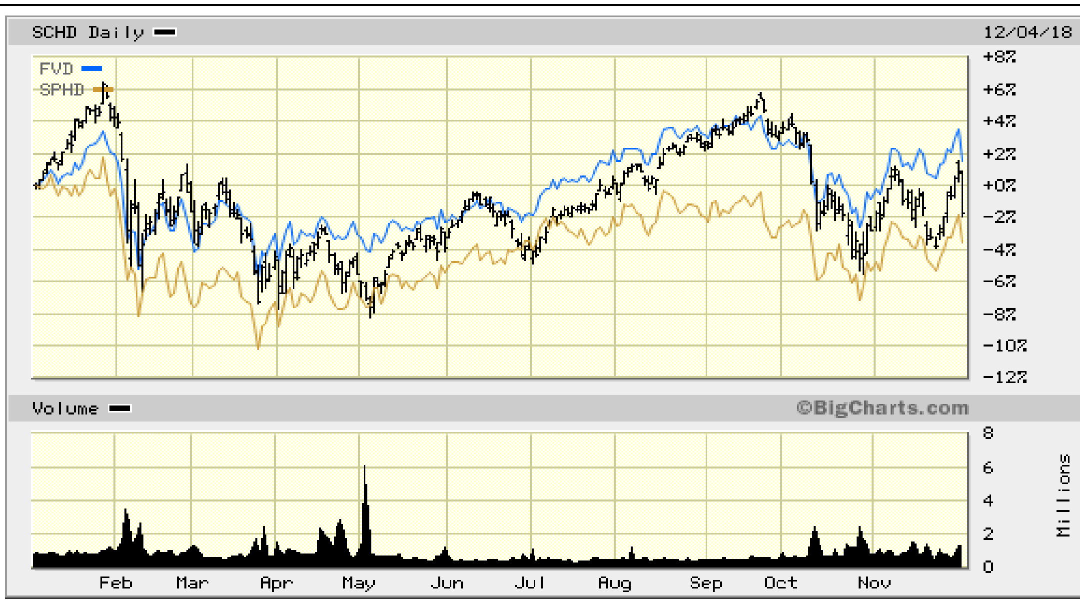


SCHB= S&P 500

QQQ= NASDAQ 100

SCHA= Small CAP

SCHM= Mid CAP



SCHD= Dividend Achievers

FVD= Value Line High Safety

SPHD= S&P 500 Low Vol High Dividend

Direct private real estate investments for our accredited investors offer return possibilities without volatility. We continue to set up calls and meetings with our clients to review options and ways to implement them into a tax efficient asset allocation strategy.

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