

## SWM INVESTMENT REPORT JANUARY 2020



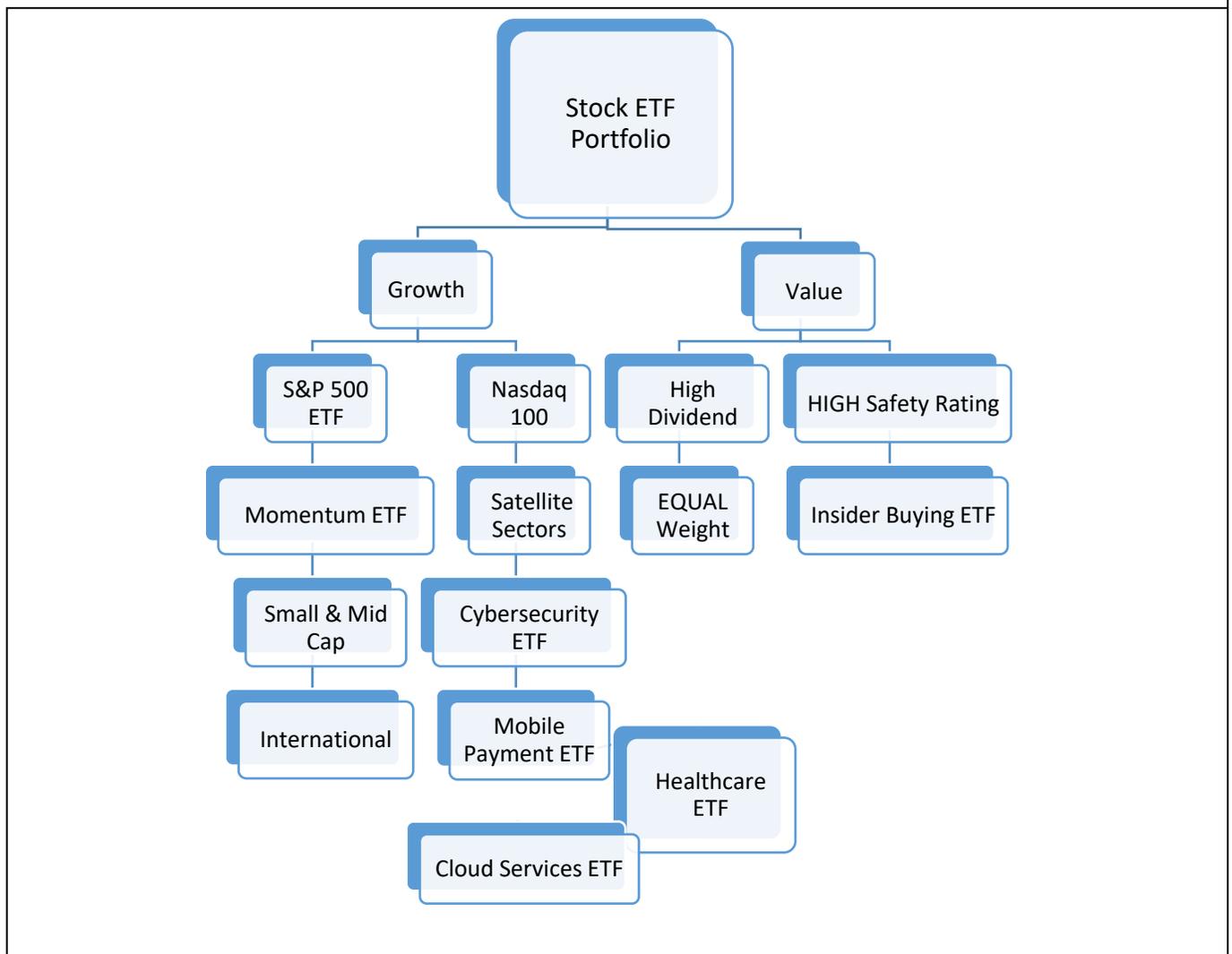
In the next two weeks, economic teams from Blackrock, Schwab, First Trust, Vanguard, Pimco, Blackstone, and probably a few others will launch conference calls, podcasts, and videos with 2020 market predictions and trends. I plan on actively listening to all of them, but there only a few economists that resonate with me.

We know short-term predictions are impossible and we need to take all opinions and economic forecasts with a grain of salt, but we continue to gravitate toward Brian Wesbury and his First Trust team of Robert Stein and Bob Carey. Wesbury's price targets, advice, and asset allocation calls have been extremely impressive. Wesbury was the only one who got it 100% right last year and almost predicted the Dow and S&P 500 on the nose. When the market was correcting late December and early January of 2019, he predicted the US markets would bounce back and run over 20%. For the 47% who open and read my newsletters, I sent out his note entitled "It's a Correction, and not a Recession" in December 2019. He has had a phenomenal track record over the last 5 years calling for US stocks to outperform, and non-US stocks to lag in the strong dollar environment. He continues to warn that bonds are overvalued with yields too low for reasonable long-term investors. Last week, he released his 12-month price target for the S&P 500 to go 12.5% higher in 2020. (watch link below) <https://www.ftportfolios.com/Commentary/EconomicResearch/2020/1/14/2020-economic-and-marketing-outlook>



With the markets' recent hot streak, it is going to be tough to put new money to work, and patience will be needed. Waiting for the next pullback is a prudent idea, but we don't think it's time to aggressively sell either. I am sure we will have some turbulence this year, and it is likely to come around election time. The markets have a tendency to shake out weak hands a few times a year with some unexpected bumps. That being said, we expect markets to finish the year with modest gains. Interest rates are low, unemployment is low, corporate taxes are still low, trade tensions are being worked out, and expectations for global growth are optimistic.

We remain invested in Exchange Traded Funds (ETFs) with a focus on the following sectors in 2020 (see diagram below). ETFs provide diversification and tax efficiency by constantly buying and selling underlying stocks, using rule-based data to make these selections. Most market cap weighted index funds use momentum-based algorithms that essentially buy more of the companies moving up and cut positions of those moving down in price. Value-oriented ETFs focus on buying stocks that may be contrarian purchases. They will focus on qualities like dividend growth, safety rating, and capital strength. These are not momentum-based strategies. These ETFs use both qualitative and quantitative based rules to purchase stocks within the index.



Other ETF strategies for diversification are equal-weight with quarterly rebalancing in place. That ensures that all 500 of the S&P 500 constituents are weighted equally at .20% per company. This strategy should provide enhanced diversification as the “Big 5” companies (Apple, Amazon, Microsoft, Google and Facebook) now make up over 15% of the S&P 500 and almost 50% of the Nasdaq 100 index. That is a lot of concentration in 5 companies, albeit very good investments at the moment. The equal weight ETF may provide a smoother ride should any of the Big 5 substantially falter in 2020.

We are very thankful for the success we have shared with our clients last year. SWM has grown assets under management well over \$200 million and our client number has increased consistently. We continue to work by referral only, providing financial planning, investment models, and real estate options for those who are looking to grow their wealth in a consistent and tax-efficient manner. We will continue to honor referrals with 2 hours of free advice and education.

As always, our goal is to keep your capital compounding, while keeping your taxes and fees low. Please let us know if we can assist in updating your financial plan or reviewing your financial situation. We are always available for a conference call or meeting and look forward to your continued partnership in 2020.

**Stewart Wealth Management, Inc.**

**1050 Northgate Dr. Suite 333  
San Rafael, CA, 94903**

**[WWW.STEWARTWEALTHMGT.COM](http://WWW.STEWARTWEALTHMGT.COM)**

**Phone: 877-518-8658 Fax: (800) 588-6099**

“Not all Stewart Wealth Management purchase recommendations are included in this article. It should not be assumed that all future recommendations will be profitable.”



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