Hughes Investment Advisory Service

January 4, 2019

Dear Clients and Investors,

Happy New Year to all of you. US stocks closed out trading in 2018 on a very negative note. For those of us keeping score, the S&P 500 reached 2346 intraday on December 26th – that's off 19.93% from the Sept 20 closing high of 2931. 20% drops constitute a Bear market. 10% corrections occur every 0.9 years, 15% plunges occur every 2.1 years and 20% Bear markets take place every 3.5 years. December was the worst December since 1931! 2018 was marked by two stock market corrections, rising interest rates, an ugly trade battle and growing concerns that a recession and continued Bear market lies just around the corner. The S&P 500 was down over -14% in the 4th quarter and fell - -4.4% for 2018.

Each year at this time I like to reflect back on last years predictions to see how they turned out.

Where was I correct in 2018?

- Unemployment rate did dip below 4% and ended the year at 3.9% as predicted.
- GDP Growth looks like it will finish the year at approximately 3.125% almost exactly as predicted at 3.25%
- Interest rates did rise with the 10-year T-Note reaching 3.25% as predicted and ended 2018 at 2.68% The Fed raised the Fed Funds rate 4 times in 2018 to 2.25-2.5% exactly as predicted.
- Consumer confidence remained strong ending at a reading of 128 as predicted.
- Oil prices hit $86.00 and did average over $60.00 for the year ending at $57.00
- Corporate profits did set a record with S&P 500 earnings projected at full year 2018 at $162 just above the $155 predicted.

Where was I off the mark in 2018?

- The S&P 500 dropped -4.4% significantly below my +12% prediction.
- Inflation remained subdued ending the year at 2.2% well below the 3% predicted.
- The US dollar did strengthen but not as much as predicted versus the Euro ending at .88 versus the 1.00 predicted.
-

The good news about my incorrect predictions is that although three were off the mark, two of the three were off the mark and are market positive – so we will take it! Interestingly, the only incorrect and market negative prediction was the S&P 500 return itself which just goes to prove that although we can get the facts correct, the markets sometimes do what they want to do regardless of the fundamentals and historical precedents. Yes, the market sometimes moves purely on emotions and, as I suspect for 2018, based on algorithms and computerized trading.

434 Housatonic Ave. Stratford, Ct 06615 203-209-4797
Hughes Investment Advisory Service

So where are we today? If the fundamentals look positive why is the market so volatile and why did it have a 20% correction last quarter? As previously mentioned, I believe that program trading and/or algorithm based trading on ultra fast trading models are affecting the markets. The trading appears to be triggered by whatever information crosses the news wires whether its real news, fake news, or rumors. I think that this is one of the downsides to our new "Information Society". Two points: 1. It's important as citizens of the US that we understand this new "Info Society" that we live in today and it's impact on our lives but also 2. How it impacts the investment world and the markets. On the one hand if a particular company's stock price, or the overall market are affected by incorrect or fake news, that information can also be used to our advantage if we are able to purchase stocks at temporarily discounted prices. As though investors didn't have enough information flow to process and act on we now must incorporate the above "Info Society" impacts on our investing radar. Additionally, many of the companies that we own form the backbone of the Info Society: i.e.: Apple, Google, Microsoft etc. No-one said this would be easy! It's worth reprinting the description of "Information Society" from Wikipedia – see below:

An **information society** is a society where the creation, distribution, use, integration and manipulation of information is a significant economic, political, and cultural activity. Its main drivers are digital information and communication technologies, which have resulted in an information explosion and are profoundly changing all aspects of social organization, including the economy,[1] education, health, warfare, government[2] and democracy.

Please see the attached Interim Market Update sent out on December 22, 2018 for more detail on where I see our economy and the fundamentals as we enter 2019. To summarize, from a big picture standpoint, I believe that pending a positive resolution to the China/US trade standoff (75% likelihood IMHO), the economy is on solid ground and the markets represent value at this time.

Some predictions for 2019:

- The S&P 500 will rise 16%. GDP Growth of 2.875% Unemployment rises to 4.3% as discouraged workers continue to re-enter the workforce.
- Interest rates will finally rise – 10-year T- note averages 3%. One rate hike by the FED.
- Consumer Confidence remains strong 128 now.
- Inflation moves higher but stays muted at 2.5%
- Oil prices remain stable and average around $60 for the year.
- Dollar remains strong relative to most currencies, and strengthens versus Euro to .95
- Corporate profits hit another record high S&P 500 earnings at $170 up 8%

At this time I continue to favor large-cap, dividend paying, international corporations with strong balance sheets and Asian markets in general. Risk/reward continues to favor equities over fixed income. Select MLP's, REIT's and specialized bond funds continue to look good as income producers.

Sincerely,
J. Britt Hughes
Registered Investment Advisor
Britthughes2@icloud.com www.hiasllc.com