JANUARY 2019 RECAP

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Equity markets in the United States rebounded to start 2019 as the S&P 500 increased by +8.0%- the best monthly return since October 2015 and the best January return since 1987. Recall that the stock market sold off at the end of 2018 (a peak-to-trough decline of -19.8% that bottomed on Christmas Eve) due to fears that a trade war with China, Federal Reserve interest rate hikes, a few missteps by new Fed Chairman Jerome Powell, political turmoil in Washington, and slowing growth internationally could lead to a recession in early 2019. Our view going into 2019 was that while a recession is possible, it still isn't the most likely outcome based on current economic data. The market has bounced +15.2% since December 26th as a few positive events decreased the likelihood of a recession, including, a temporary end to the government shutdown, some positive news on the US/China trade front, stronger than expected economic data, and the Fed changing their stance on future monetary policy (see below for details).

International markets posted strong results as Developed International (MSCI EAFE) markets increased by +6.6% while Emerging Markets (MSCI EM) gained +8.8%.
Within Fixed Income markets, bonds produced positive returns as the Barclays US Aggregate Bond Index increased by +1.1%.

United States Equity Markets

Index	January	1-Year	3-Year	5-Year
S&P 500	8.01%	-2.31%	13.94%	10.92%
Dow Jones Industrial Average	7.29%	-2.19%	17.67%	12.40%
Nasdaq Composite	9.74%	-1.75%	16.34%	12.11%
S&P 400	10.46%	-4.53%	13.41%	8.60%
Russell 2000	11.25%	-3.52%	14.63%	7.24%

International Equity Markets

Index	January	1-Year	3-Year	5-Year
MSCI EAFE	6.59%	-12.07%	8.23%	3.13%
MSCI Europe	6.61%	-13.35%	7.31%	2.05%
MSCI Japan	6.10%	-11.31%	8.85%	5.44%
MSCI Emerging Markets	8.76%	-13.90%	15.23%	5.14%

Fixed Income

Index	January	1-Year	3-Year	5-Year
Barclays US Aggregate Bond Index	1.06%	2.25%	1.94%	2.43%
Barclays US Credit Index	2.16%	0.94%	3.70%	3.30%
Barclays High Yield Index	4.52%	1.73%	9.36%	4.59%
Barclays Municipal Bond Index	0.76%	3.26%	2.14%	3.56%

Commodities

Index	January	1-Year	3-Year	5-Year
Oil	18.45%	-16.90%	59.99%	-44.83%
Gold	3.24%	-1.44%	18.21%	6.42%
Silver	3.94%	-6.70%	14.17%	-16.75%
Copper	6.13%	-12.41%	35.13%	-13.40%

We'd like to highlight three key events of January 2019:

TRADE WAR UPDATE (AGAIN)

The ongoing trade war between the US and China stayed in the news again all month as it appears that the two sides are moving closer to an agreement. Mid-level negotiations took place in Beijing at the start of the month. Senior-level negotiations between China's Vice Premier and a US delegation occurred in Washington toward the end of January. Both sides expressed optimism about the prospects of a deal. Several reports indicate that the two sides are still trying to work through issues of intellectual property rights and technology transfer.

The next round of negotiations will likely occur in China in early February. Shortly after, US President Trump and Chinese President Xi are expected to meet and potentially finalize the agreement. Recall that the two Presidents last met in person in early December. Both sides called the meeting "highly successful" as they both agreed to hold off on implementing any new tariffs for 90 days in hopes that a broader deal can be reached. The United States agreed not to raise their tariff rate from 10% to 25% on $200 billion worth of Chinese goods until March 1, 2019. Both sides are working to complete a deal before the March deadline. However, it is also possible that the deadline is extended due to progress toward an agreement. The ongoing trade war has been an overhang on the stock market due to the potential negative impacts. The situation will remain a market risk until an agreement is signed.

GOVERNMENT SHUTDOWN ENDS (TEMPORARILY?)

The five-week partial government shutdown ended in late January as Congress agreed to reopen the government until February 15, 2019. The three-week temporary agreement allowed eight hundred thousand federal workers who were either furloughed or working without pay to receive their paychecks and back-pay. Negotiations are underway for a broader deal to avoid another partial shutdown at the end of the three-week window.

The Congressional Budget Office (CBO) estimated the partial shutdown will ultimately cost the United States economy about $3 billion – the agency also stated the closure had indirect effects that are difficult to measure and would have been more significant if the shutdown continued. The CBO also estimated the shutdown will reduce first quarter 2019 GDP by-0.4%, but that subsequent quarters will likely be temporarily higher. The Bloomberg consensus estimate for Q1 2019 GDP is currently at +2.2%.

FED PIVOTS

At the end of 2018, the Fed helped exacerbate the year-end sell-off with their interest rate and balance sheet policies. At their December meeting, the Fed raised the federal funds rate range for the fourth time in 2018, and signaled for two rate hikes in 2019. At the subsequent press conference, Chairman Powell infamously stated that the Fed's balance sheet runoff plan was on "automatic pilot." Investors were concerned that by simultaneously increasing interest rates and decreasing the size of their balance sheet, despite several economic warning signals, the Fed could overtighten financial conditions and cause a recession. In our 2018 recap we stated that the stock market would likely react positively to the Fed signaling more flexibility on future interest rate hikes and/or the balance sheet runoff.

The stock market got exactly what it wanted from the Fed in January 2019. At the January FOMC meeting, the Fed stated that they will be "patient" with future interest rate increases. The Fed also released a supplemental statement that specified that they would be flexible with the balance sheet runoff program if economic conditions warrant. The Fed further signaled that the ultimate size of the balance sheet may end up being larger than previously expected. Markets reacted positively to the Fed's new "patient" and "flexible" approach,

CLIENT QUESTION

Our client question of the month revolves around one of our favorite and most discussed topics - market timing.

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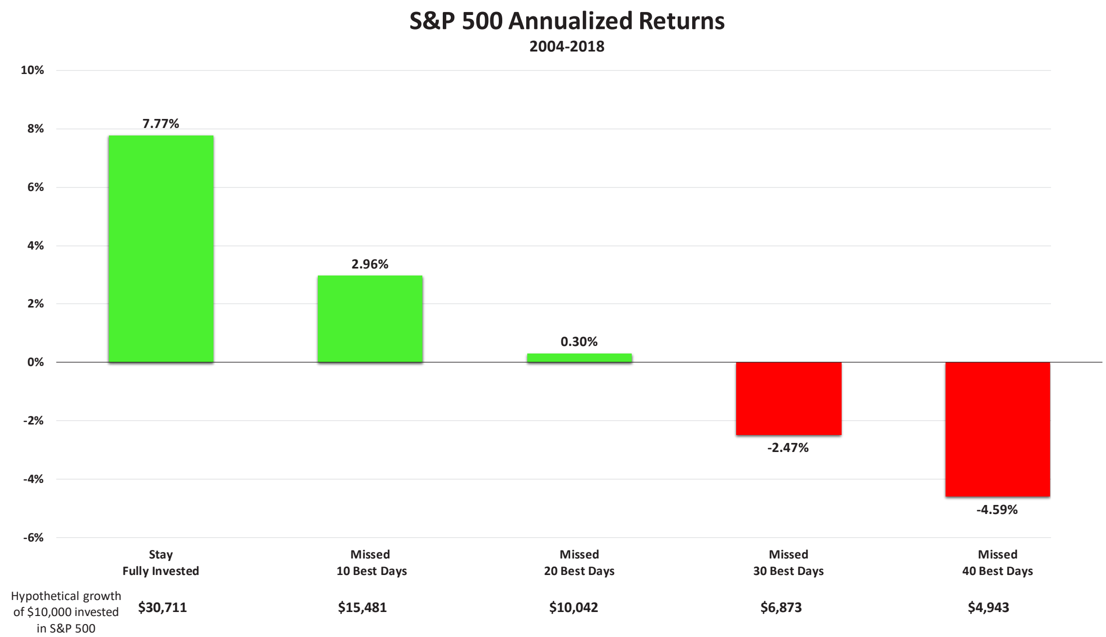
"Don't try to buy at the bottom and sell at the top. It can't be done – except by liars" -Bernard Baruch, Renowned Investor

Market timing is an investment strategy that is implemented by selling a large portion of equity holdings when the market is high*, patiently waiting on the sideline as the market declines, reinvesting at the market low, and then riding the market back up to new highs. Rinse and repeat. Although this might sound easy, the reality is that successful market timing is nearly impossible to execute consistently. Market tops and bottoms are never obvious in real time, only in hindsight. Keep in mind that if an investor discovered the magic formula to market timing, they would essentially be able to make an unlimited amount of money. There is no magic formula. In this piece we hope to demonstrate that market timing is a loser's game rather than a solid investment strategy.

*Selling a large portion of equities could result in substantial capital gains for taxable investors.

To execute a market timing strategy an investor must get two decisions precisely correct: when to sell out of the market and when to buy back in. Most investors come up short with the second decision, buying back in. Investors who wait on the sideline and hope that the market declines further often miss significant rallies. The following data demonstrates that missing a few of the best days in the market can be devastating to long-term investment results.



Over the last fifteen years, the S&P 500 has produced a total annualized return of +7.77%. A $10,000 investment over this period would have increased to $30,711. However, note the difference in returns from missing just a few of the best days in the market. An investor who remained on the sideline during the 10 best days would have generated a total annualized return of +2.96%. An investor who missed the 40 best days would have lost money (-4.59%).

We will also highlight that the best days in the market often occur during periods of severe market stress. Four of the five best days in the market over the last fifteen years occurred in October and November of 2008, the heart of the financial crisis. The best day in 2018 occurred on December 26th. As most investors remember, December of 2018 was an especially volatile month. The market eventually bottomed on Christmas Eve, with a total peak-to-trough decline of-19.8%. Nervous or frustrated investors who threw in the towel on Christmas Eve would have missed out on the best day of the year and subsequent market rebound. During periods of market stress, it is impossible to know when the market bounce will occur, but we do know that missing the bounce can have a severe negative impact on total return.

At Winthrop Wealth Management, we are long-term investors. We believe that the most successful investment strategies employ a long-term approach as markets can be extremely volatile in the short-term. We do not believe in market timing. Rather, we believe the best approach is to combine a detailed financial plan with a structured, consistent, and repeatable investment process. As the father of value investing, Benjamin Graham, pointed out, "the best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and behavioral discipline that are likely to get you where you want to go."

We consistently encourage our clients to maintain a long-term viewpoint while remaining focused on their overall goals and objectives. At Winthrop Wealth Management, financial planning works in concert with investment management. The Financial Plan, which helps clients define cash flow needs and future objectives, drives the investment management strategy. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. As always, please contact us if you have any updates to your personal or financial circumstances.

DISCLOSURES:

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Barclays Capital Municipal Bond Index is a broad market performance benchmark for the tax-exempt bond market, the bonds included in this index must have a minimum credit rating of at least Baa.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt
The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

Investing involves risk including loss of principal. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.