APRIL 2019 RECAP

Andrew Murphy, CFA
Director of Portfolio Management
Winthrop Wealth Management

Equity markets continued their march higher in April as the S&P 500 returned +4.1% in the month and is now up +18.3% in 2019 – this is the best start to a year since 1987 and the 5th best overall since 1929. The market is back to all-time highs despite the volatility at the end of 2018 that included a near bear market (peak-to-trough decline of -19.8%), the first calendar year loss since 2008, and the worst December monthly return since 1931. The market declined at the end of last year on fears that a recession could occur in early 2019. Now the market has rebounded when those recessionary fears did not materialize. The market rally has been broad based as most major asset classes have generated strong year-to-date returns. April included several positive developments including a solid start to the Q1 2019 earnings season, some better than expected economic data, and more progress toward a US/China trade deal.

While we are pleased that the market is off to an excellent start to the year and has rebounded from the 2018 selloff, we acknowledge that the rate of return will likely slow down. The market has gone up in almost a straight line since it bottomed on Christmas Eve (+26.1%). If the S&P 500 continues at its current pace, it would return about +66.5% in 2019, which would be the best calendar year return ever. The current best annual return for the S&P was +52.3% in 1954. We are not forecasting an imminent market crash or suggesting that the market won't increase from these levels. Rather, we are reminding our clients to be realistic with their market expectations going forward and to be prepared for a potential increase in volatility. We publish our full market outlook after each quarter, and for now, it remains balanced as we continue to monitor market fundamentals, economic growth, Fed policy, and the potential impacts of a US and China trade war continuation or resolution.

US Equity Markets

Index	April	YTD	1YR	3YR	5YR
S&P 500	4.05%	18.25%	13.19%	14.83%	11.61%
Russell 3000	3.99%	18.60%	12.36%	14.70%	11.17%
Dow Jones Industrial Average	2.66%	14.79%	12.87%	17.08%	12.60%
Nasdaq	4.78%	22.39%	14.80%	20.60%	15.82%
S&P 400	4.02%	19.09%	6.58%	12.22%	9.43%
Russell 2000	3.40%	18.46%	4.00%	13.55%	8.62%

International Equity Markets

Index	April	YTD	1YR	3YR	5YR
MSCI EAFE	2.81%	13.07%	-2.55%	7.23%	2.53%
MSCI Europe	4.94%	15.37%	-5.78%	7.69%	1.46%
MSCI Japan	1.39%	8.14%	-6.81%	6.91%	6.13%
MSCI China	1.75%	20.71%	-3.81%	16.35%	9.77%
MSCI Emerging Markets	2.11%	12.23%	-4.88%	11.23%	4.03%
MSCI ACWI ex US	2.64%	13.22%	-2.70%	8.08%	2.78%

Fixed Income Markets

Index	April	YTD	1YR	3YR	5YR
Bloomberg Barclays US Agg	0.03%	2.97%	5.53%	1.90%	2.53%
Corporates	0.54%	5.71%	6.88%	3.35%	3.51%
High Yield	1.42%	8.78%	6.86%	7.67%	4.83%
Munis	0.38%	3.28%	6.10%	2.58%	3.53%

SOURCE: Bloomberg (2019)

We'd like to highlight two key events of April 2019:

Q1 2019 GDP

The United States economy started 2019 on a strong pace as Q1 GDP increased by a +3.2% seasonally adjusted annual rate – the best first-quarter growth rate in four years. The report was better than the expected +2.3% consensus estimate. The current economic expansion is set to become the longest on record in mid-2019. Given the latest GDP report, the economy should have no trouble achieving this mark. The Commerce Department also pointed out that the government shutdown decreased Q1 GDP by-0.3%.

Details of the release were somewhat mixed, suggesting a possible slowdown in Q2. A significant portion of Q1's growth was driven by rising exports (+1.0% to overall GDP growth) and higher inventory (+0.7%) levels. Both components have been volatile over the past few quarters amid the ongoing US and China trade war and are expected to moderate in the future. Consumer spending, which accounts for about two-thirds of economic activity, increased by only +1.2%. However, we have seen signs that consumer spending accelerated toward the end of the quarter as Retail Sales figures rose by +3.6% Y/Y in March. The current consensus estimates for GDP growth are +2.5% for Q2 and +2.4% for full-year 2019. The Gross Domestic Product (GDP) report is released by the Commerce Department's Bureau of Economic Analysis (BEA). The BEA defines GDP as the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production. GDP is also equal to the sum of personal consumption expenditures, gross private domestic investment, net exports of goods and services, and government consumption expenditures and gross investment. The BEA releases three estimates for each quarter's GDP – the first estimate occurs about a month after the quarter ends.

Back to All-Time Highs

Despite the roller coaster ride over the past several months, the market reached a new peak at the end of the month. The S&P 500 hit a new all-time closing high on April 30th when the index closed at 2,946. The previous high was achieved back in the fall of 2018 when the market topped out at the 2,930 level. Even with a Q4 2018 return of-13.5% and a near bear market, the stock market only took about 200 days to reach a high point again. Going forward, is a market high an ominous sign?

The following data displays monthly closing levels of the S&P 500 Index from 1926 to 2018. Of the 1,116 months observed, almost one-third represented new all-time highs. This isn't too surprising as the stock market tends to go up over time. The data shows that looking ahead on a one-, three-, and five-year basis, the performance of the S&P 500 after a new market high was about the same as any other time period. This study demonstrates that a new market high does not forecast an inevitable market decline. In other words, a new market high is a not a useful predictor of future returns.

S&P 500 Monthly Returns (1926 - 2018)

Look-Ahead Period	Percent of Cases Where Index is Higher (after new high)	Average Return (after new high)	Percent of Cases Where Index is Higher (after any previous level)	Average Return (after any previous level)
1-Year	81.3%	14.1%	75.2%	12.3%
3-Year	84.3%	10.4%	83.7%	10.6%
5-Year	84.8%	9.9%	87.7%	10.1%

SOURCE: Dimensional Fund Advisors (2019)

CLIENT QUESTION

Sell in May and Go Away

Andrew Murphy, CFA
Director of Portfolio Management
Winthrop Wealth Management

"Markets sometimes form patterns, which work until they don't." - Oppenheimer

Since the market is back to all-time highs, we've gotten a few questions about the old investment adage, "Sell in May and Go Away." This saying comes from the belief that the stock market generates most of its gains between November and April, and that it goes no-where or declines from May to October. The origin comes from the custom of English merchants and bankers who left London for the summer and then returned in the fall. On Wall Street, traders and portfolio managers historically took long vacations between Memorial Day and Labor Day.

To follow the adage, an investor would sell all their stocks on May 1st, sit on the sidelines or invest in bonds for six-months, and then reinvest in the stock market on November 1st. Let's call this strategy what it really is- systematic market timing. Market timing is one of our favorite topics and is something we get asked about quite often. We discussed market timing in our **January Client Question**. The "Sell in May and Go Away" maxim removes the most difficult market timing decisions, when to sell out and when to buy back in. Here the decision is made for you: sell in May and buy in November.

To examine how the May to October period historically performed against the November to April time-frame, we looked at historical data of the S&P 500 going back to 1929. Over the historical time period, the November to April period did outperform May to October, suggesting that the "Sell in May and Go Away" adage has some validity.

S&P 500 (1928 - 2019)		
Data	**May to October**	**November to April**
Positive Periods	65	70
Negative Periods	26	21
Total Periods	91	91
Average Return	3.88%	6.86%
Median Return	5.27%	7.29%
High Return	38.23%	26.89%
Low Return	-31.97%	-44.10%

SOURCE: BLOOMBERG (2019)

Before we go and sell all our equity holdings because the calendar turned to May, we will point out three critically important items:

➔ Does not work every year:

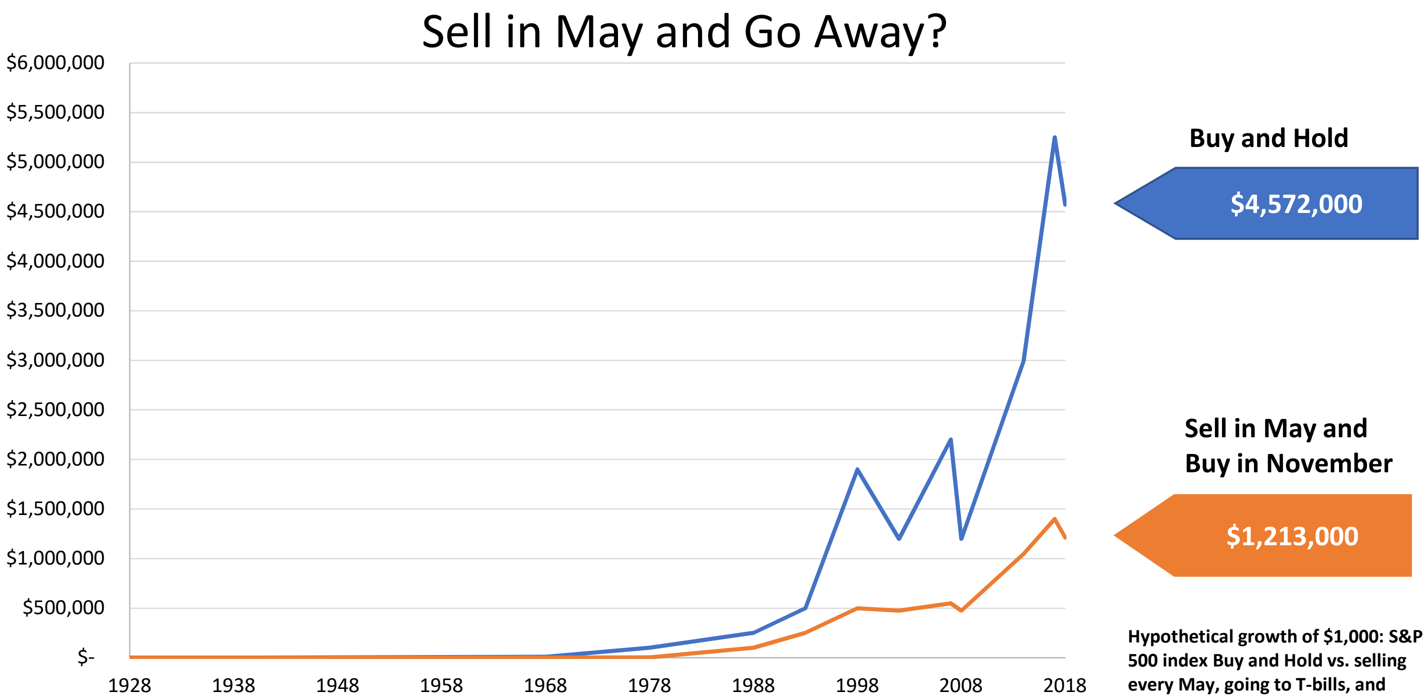
The "Sell and May and Go Away" strategy does not work every year. Starting at the beginning of the year, the May to October period outperformed the subsequent November to April time-frame in 38 of 91 total periods (about 42% of the time). The strategy has also not worked very well recently as May to October has had better performance in 4 of the past 7 years.

➔ Potential Capital Gains:

An investor with a taxable account could face substantial capital gains by liquidating their equity holdings each May. Taxable investors must pay capital gains taxes on realized gains occurred in the current tax year.

➔ Opportunity Cost:

Although November to April has historically been a stronger period, the May to October time-frame still produced positive returns on average. Given that the May to October period has generated an average return of +3.88%, the opportunity cost of selling in May and not participating in future market gains is massive. From 1928 to 2018, a Buy-and-Hold approach invested in the S&P 500 would have dramatically outperformed a "Sell in May and Go Away" strategy (selling every May, going to T-bills, and buying again in November). Over the stated time period, $1,000 invested in the Buy-and-Hold strategy would have returned $4,572,000 vs. $1,213,000 for "Sell in May and Go Away". The vast difference in performance is due to the power of compounding.



Hypothetical growth of $1,000: S&P 500 index Buy and Hold vs. selling every May, going to T-bills, and buying again in November

SOURCE: Oppenheimer Funds (2019)

Conclusion

Based on our analysis, “Sell in May and Go Away” has some validity, but we believe that just like similar market timing strategies it should not considered as a serious investment approach. Most market timing strategies suffer from short-term thinking, potentially expose investors to substantial capital gains, and do not work consistently. As we’ve stated in the past, 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. At Winthrop Wealth Management, we are long-term investors and 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.

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 coversA 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.

Securities offered through LPL Financial. Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth Management, a Registered Investment Advisor and separate entity from LPL Financial.