

Markets went for another wild ride last week, as major domestic indexes swung back and forth. By Friday, December 7, markets had posted their worst weekly performance since March—and the S&P 500 and Dow both moved into negative territory for 2018.¹

Overall, the S&P 500 lost 4.60%, the Dow declined 4.50%, and the NASDAQ dropped 4.92%.² International stocks in the MSCI EAFE also struggled, posting a 2.27% weekly loss.³

Let's take a look at what is driving this challenging market performance.

Examining Recent Volatility

1. How volatile are stocks right now?

If recent market fluctuations have felt intense to you, there's a reason: They are. The past three weeks have had the most volatility since 2008's financial crisis. During this time, domestic indexes have ricocheted between gains and losses. The large swings have occurred both week-to-week and within daily trading.⁴

2. What is causing the volatility?

Many of the same themes we've discussed throughout 2018 are continuing to affect market behavior. Ultimately, many investors are worried that corporate profits and global growth will suffer if trade tension persists and the Federal Reserve continues raising interest rates.⁵

Concerns about Treasury yields were also on investors' minds. For part of last week, 3-year Treasury notes had higher yields than 5-year notes. Called an inversion, a higher yield on shorter-term Treasuries can be a sign of a coming recession. The yield spread between 2-year and 10-year Treasury notes, which people focus on more, has not inverted.⁶

3. Should you feel concerned?

With many headlines to digest, from conspiracy charges against a Chinese tech leader to comments from the Fed, investors had a lot to consider last week.⁷ The difference is how they reacted to this information. For some time, markets were basically ignoring headlines. Now, they've moved in the opposite direction into what one investment manager called "a period of hypersensitivity."⁸

Consequently, recent market performance may seem unnerving. As is often the case, however, the reality may be less extreme than what appears at first glance, especially when you look at the fundamentals.

4. What do the fundamentals tell us?

While last week's market performance saw large fluctuations, the fundamentals we received were far less dramatic. We learned that two sectors beat expectations in

November: manufacturing and service.⁹ Further, the November labor report revealed fewer new jobs than anticipated, but unemployment is still at historically low levels, as job and wage growth continue.¹⁰

Remember, risks exist in the markets and economy, and we're analyzing these details closely. If you have any questions about your financial standing or anything you hear in the news, we are here to talk.

ECONOMIC CALENDAR

Monday: JOLTS

Tuesday: PPI-FD

Wednesday: CPI

Thursday: Jobless Claims

Friday: Retail Sales, Industrial Production

DATA AS OF 12/7/2018	1 WEEK	SINCE 1/1/18	1 YEAR	5 YEAR	10 YEAR
STANDARD & POOR'S 500	-4.60%	-1.52%	-0.15%	7.84%	11.63%
DOW	-4.50%	-1.34%	0.73%	8.77%	10.94%
NASDAQ	-4.92%	0.96%	2.30%	11.40%	16.53%
INTERNATIONAL	-2.27%	-13.77%	-11.48%	-0.87%	4.98%
DATA AS OF 12/7/2018	1 MONTH	6 MONTHS	1 YEAR	5 YEAR	10 YEAR
TREASURY YIELDS (CMT)	2.32%	2.54%	2.68%	2.70%	2.85%

Notes: All index returns (except S&P 500) exclude reinvested dividends, and the 5-year and 10-year returns are annualized. The total returns for the S&P 500 assume reinvestment of dividends on the last day of the month. This may account for differences between the index returns published on Morningstar.com and the index returns published elsewhere. International performance is represented by the MSCI EAFE Index. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.



"If you wish to get rich, save what you get. A fool can earn money; but it takes a wise man to save and dispose of it to his own advantage."

— Brigham Young



Collard Greens with Bacon and Cider Vinegar



Serves 12

Ingredients:

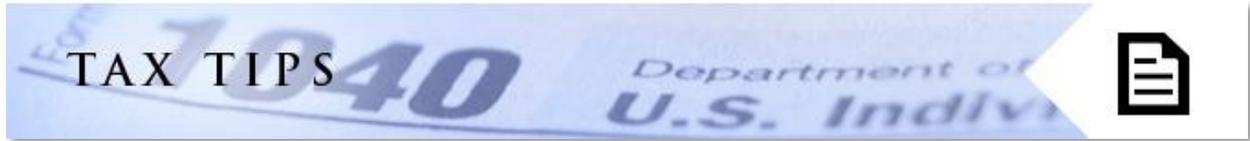
3 pounds collard greens
4 slices bacon, cut into $\frac{1}{4}$ "-wide strips
1 medium onion, coarsely chopped
2 tablespoons cider vinegar
 $\frac{1}{4}$ teaspoon salt
 $\frac{1}{4}$ teaspoon coarsely ground black pepper

Directions:

1. Throw away the tough stems of the collard greens.
2. Chop up and then rinse the collard greens.
3. Add bacon and onion to an 8-quart sauce pot.
4. Over medium heat, cook until the onion is tender, and the bacon browned, stirring occasionally, about 15 minutes.
5. Turn the heat to medium-high. Slowly add the collard greens and stir until the greens are wilted.
6. Lower the heat to medium-low, cover the pot, and cook until the ingredients are tender, about 10 minutes.

7. Turn the heat to medium-high, uncover the pot and continue cooking, while stirring, until most of the liquid has evaporated.
8. Add vinegar, salt, and coarsely ground black pepper while stirring.

Recipe adapted from Good Housekeeping¹¹



Tax Reform Changed Small Business Accounting Methods

If you own a small business, you may be able to use the cash method of accounting, thanks to the passage in late 2017 of the Tax Cuts and Jobs Act.

The act redefines small business as a taxpayer who has average annual gross receipts of \$25 million or less for the three previous tax years and doesn't serve as a tax shelter.

Here are some of the changes in the tax code for small business taxpayers.

- More small business taxpayers are eligible to use the cash method of accounting with the increase in the average receipts rising from \$5 million to \$25 million, which is indexed for inflation.
- Small business taxpayers are exempt from certain accounting rules for inventories, cost capitalizations, and long-term contracts.
- More small business taxpayers can use the cash method of accounting for tax years after December 31, 2017.

The IRS's [Revenue Procedure 2018-40](#) describes the procedures for obtaining automatic consent to change accounting methods to comply with the new provisions.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

Tip adapted from IRS.gov¹²



Putt Away the Pressure!

You're on the last hole. You're on the green. It's been a great day on the course. If you sink this, you'll achieve a personal best, and your friends will brag about your game for the next 10 years.

Everybody's watching. Your best game ever is at stake. Then suddenly you freeze. Too much pressure!

You're not alone.

Pressure can ruin the best of games. So, how do the pros overcome the pressure—when the cameras are on and the announcers are whispering?

Develop a standard putting routine, a kind of generic version you can pull out of your bag for every game use.

A kind of pre-putt, it should follow the same pattern, the same timeline, every time.

Most golfers have the habit of slowing (or, with some, speeding it up) when the pressure mounts. But the delay (or the rush) reinforces the tendency to second-guess yourself.

Once you develop a standard routine, practice it frequently so you're able to do it in pressure settings, at a moment's notice.

Tip adapted from GolfDigest¹³



Causes and Treatment of Dysphagia

If you sometimes have difficulty swallowing, you may have dysphagia.

People with dysphagia have trouble getting food to pass from their mouths to their stomachs. Nerve or muscle problems usually cause dysphagia, which is more common in older people and babies.

Problems in any part of the swallowing process can indicate dysphagia.

Dysphagia symptoms include:

- Choking while eating.
- Coughing or gagging while swallowing.
- Drooling.
- Frequent heartburn.
- Hoarseness.
- Regurgitation.
- Inability to control saliva in the mouth.

Treatment for high dysphagia includes:

- Swallowing therapy.
- Diet modifications, which may include easy-to-swallow foods.

- Tube feeding may help sufferers at a risk of pneumonia, malnutrition, or dehydration.

Treatment for low dysphagia (esophageal) may include:

- Dilation, which involves using a small balloon to widen the esophagus.
- Botulinum toxin (Botox) can be used to paralyze stiff muscles that are causing constrictions.

Tips adapted from MedicalNewsToday¹⁴



What's So Wonderful About Wetlands?

The United States has degraded or destroyed half of the nation's wetlands. In California, that amount is 90%.

So, what's the big deal about wetlands? Why are they important? Here are ten benefits of wetlands. They:

- Protect one-third of the country's threatened or endangered species.
- Protect communities from floods.
- Filter pollution.
- Block storm surges.
- Reduce potential wind and swell wave damage.
- Fertilize farm land.
- Foster recreation and tourism.
- Store carbon and thereby protect against climate change.
- Serve to boost employment.
- Lessen rises in sea levels.

Tip adapted from EarthShare¹⁵

Share the Wealth of Knowledge!
Please share this market update with family, friends, or colleagues.
We love being introduced!

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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¹ <https://www.cnn.com/2018/12/07/stock-market-dow-futures-fall-ahead-of-unemployment-figures.html>

² <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=SPX®ion=usa&culture=en-US>

<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=%21DJI®ion=usa&culture=en-US>

<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=@CCO>

³ <https://www.msci.com/end-of-day-data-search>

⁴ <https://www.bloomberg.com/news/articles/2018-12-07/stocks-drubbing-vexes-fund-managers-as-year-end-pressure-mounts?srnd=premium>

⁵ <https://www.bloomberg.com/news/articles/2018-12-07/stocks-drubbing-vexes-fund-managers-as-year-end-pressure-mounts?srnd=premium>

⁶ <https://www.cnbc.com/2018/12/07/stock-market-dow-futures-fall-ahead-of-unemployment-figures.html>

⁷ <https://www.bloomberg.com/news/articles/2018-12-06/asia-signals-mixed-start-for-stocks-yields-drop-markets-wrap?srnd=markets-vp>

⁸ <https://www.cnbc.com/2018/12/07/stock-market-dow-futures-fall-ahead-of-unemployment-figures.html>

⁹ <https://www.ftportfolios.com/Commentary/EconomicResearch/2018/12/3/the-ism-manufacturing-index-rose-to-59.3-in-november>

<https://www.ftportfolios.com/Commentary/EconomicResearch/2018/12/6/the-ism-non-manufacturing-index-rose-to-60.7-in-november>

¹⁰ <http://wsj-us.econoday.com/byshoveventfull.asp?fid=485662&cust=wsj-us&year=2018&lid=0&prev=/byweek.asp#top>

¹¹ <https://www.goodhousekeeping.com/food-recipes/a3919/collard-greens-bacon-cider-vinegar-2664/>

¹² <https://www.irs.gov/newsroom/heres-how-tax-reform-changed-accounting-methods-for-small-businesses>

¹³ <https://www.golfdigest.com/story/be-like-tiger-beat-pressure-with-a-relentless-routine>

¹⁴ <https://www.medicalnewstoday.com/articles/177473.php>

¹⁵ <https://www.earthshare.org/wetlands/>