

The close of the year provides an opportunity for investors to step back and consider the wider financial landscape. This week, we're reviewing some key issues that defined 2018, as well as some factors that may influence financial markets in the coming year.

Year in Review

Wall Street began 2018 in rally mode, as enthusiasm for the 2017 Tax Cuts and Jobs Act spilled over into the New Year. Strong economic news encouraged investors, who put aside fears that rising inflation may lead to higher interest rates. What Wall Street did not see coming were the spring and summer trade disputes with China, Canada, Mexico, and the European Union. Fear of a global economic slowdown contributed to a sharp decline in stock prices in October. U.S. economic growth forecasts were tempered in November for 2019, with bull and bears engaged in a fierce tug-of-war as the year came to a close.¹

Economic Growth

After expanding at a middling 2.2% pace in the first quarter, the Gross Domestic Product (GDP) rose 4.2% in Q2 and 3.4% in Q3.² The Federal Reserve Bank of Atlanta forecasted a 2.7% increase for Q4, which will be released on January 30, 2019 by the Bureau of Economic Analysis.^{3,4} The Congressional Budget Office expects GDP growth in 2019 to slow to 2.4% "as growth in business investment and government purchases slows."⁵

Interest Rates

At the close of its September 2018 meeting, the Federal Reserve raised the federal funds rate to 2.25%, a full percentage point higher than it was a year earlier. Federal Reserve Chair Jerome Powell appeared to change his stance on monetary policy, saying interest rates were "just below" a neutral level. Previously, he indicated rates were a "long way" from neutral.⁶

Consumer Prices and Wage Growth

The number of future interest rate hikes by the Fed may largely depend on its reading of inflation. An uptick in consumer prices or an increase in wage growth may prompt the Fed to consider additional hikes in 2019.⁷

Trade Talk Progress

Tariffs were a highlight of 2018 news. On July 10, the Trump administration announced a list of tariffs on \$200 billion in Chinese goods.⁸ The escalating trade dispute between the U.S. and China is an enormous overhang on the financial markets. The continuing impasse may affect economic growth and push consumer prices higher.

2018 also was a year in which a major trade pact started to come together. The United States-Mexico-Canada Agreement (USMCA) was approved in principle in October. However, the agreement must be approved by Congress and the legislative bodies of Mexico and Canada before it can take effect.⁹

U.S. Dollar

Rising interest rates and robust domestic growth in 2018 lead to a strengthening of the U.S. dollar. A strong U.S. dollar can negatively affect profits of U.S.-based multinational companies, since it can make their products more expensive to overseas buyers.¹⁰ This will also be something to watch in the coming year.

Real Estate

The trend of higher interest rates in 2018 was also felt in the real estate market. The average rate on a 30-year conventional home loan stood at 3.95% in January 2018. At year's end, it was hovering near 5% according to Freddie Mac.¹¹

We hope you enjoyed this look back at 2018! Next week, we'll be back to covering the market numbers.

QUOTE OF THE WEEK



“The habit of saving is itself an education; it fosters every virtue, teaches self-denial, cultivates the sense of order, trains to forethought, and so broadens the mind.”

— T.T. Munger

RECIPE OF THE WEEK



Beef Stroganoff



Serves 4

Ingredients:

2 tablespoons olive oil
10 ounces cremini mushrooms (sliced)
Kosher salt
Pepper
1 pound lean beef sirloin (thinly sliced)
2 cloves garlic (finely chopped)
2 tablespoons Dijon mustard
½ cup dry white wine
3½ cups low-sodium beef broth
8 ounces fusilli pasta
3 tablespoons crème fraîche or sour cream

Directions:

1. On medium heat, heat 1 tablespoon olive oil in large skillet.
2. Stir in cremini mushrooms, season with salt and pepper, and cook until browned, 5 minutes. Move to bowl.
3. Put the pan back on medium heat. Stir in 1 tablespoon olive oil, season thinly sliced lean beef sirloin with salt and pepper, and cook until no longer pink.
4. Add garlic, cook 1 minute, and stir in Dijon mustard.
5. Put in dry white wine, cook. Scrape up any browned bits.
6. Mix in low-sodium beef broth. Bring to a simmer.
7. Mix in fusilli pasta and mushroom with juices. Bring to a simmer again. Stir often until the pasta is al dente, 14-18 minutes.
8. Mix in crème fraîche or sour cream. Season with salt and pepper.

Recipe adapted from Good Housekeeping¹²



To Itemize or Not to Itemize

The passage of the Tax Cuts and Jobs Act (TCJA), slightly more than one year ago, changed the way you can itemize your deductions.

The act nearly doubled the standard deduction and altered several itemized deductions that you can claim on Schedule A, Itemized Deductions.

The changes in itemized deductions may make using the higher standard deduction more enticing if, in previous years, you itemized your deductions. You can only do one or the other: Use the standard deduction, or use itemized deductions.

The tax reform law made the following changes to itemized deductions that can be claimed on Schedule A for 2018.

The act suspends the limit on overall itemized deductions.

The act modifies deductions for state and local incomes and sales and property taxes. You may only deduct a total of \$10,000 (\$5,000 if you're married and filing separately) on those items. You may not deduct anything above that amount.

The act changes the amount you may deduct on your qualified home-loan balance. If you have a mortgage or a home equity loan, you may be able deduct the interest. If the mortgage or loan was obtained on or prior to December 15, 2017, you may deduct up to \$1 million in qualifying debt.

If you obtained the loan after that date, you may only deduct interest on up to \$750,000 in qualifying debt.

The cash contributions to charities rose from 50% to 60% of your adjusted gross income. If you're a big giver, you may be able to take advantage of this deduction by donating more this year.

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.gov¹³



The Secret to Aligning Your Putt

If you're haunted by poor putting, your problem might be alignment. You might have other issues but dealing with your alignment might help fix the others.

The problem: aiming too far to the right (or left if you're a left-handed putter). That means when you're making contact, you have to cut across the ball to make contact. This automatically puts a sidespin on the ball.

The solution: A square putter face at strike sends the ball in the right direction. You do that by developing the feeling that you're going to hit a draw.

This sets the putter to track on the inside along the impact line to the hole. Lay down golf clubs aiming at a hole to practice this shot. Practice putting toward a hole six feet away.

Tip adapted from GolfDigest¹⁴



Fibromyalgia: What is It, and How Do You Treat It?

You experience chronic muscle pain, fatigue, sleep problems, and tender areas. You may have fibromyalgia.

About 5 million Americans have fibromyalgia, a lifelong condition. Sufferers typically have stiff, sore muscles. The syndrome is not easily diagnosed, but doctors are able to develop treatment plans based on symptoms.

Health experts say your best approach for relief is to get moving. A few minor changes to your exercise routine can give you more energy and ease the pain.

For starters, gently rotate your joints until they move easily. Focusing on the big muscles (calves, thighs, hips, lower back, shoulders), stretch the full range of motion and hold for 30 seconds.

Walking and other aerobic activities can provide significant relief. The secret is to find something you enjoy doing and doing it for 30 minutes a day, five days a week.

Isometric exercises are great too. Isometrics consist of pushing and holding something against resistance. The chest press is one example. Holding your two hands clasped in front of you is a good one. Do five sets. A set is pressing and holding for 10-15 seconds.

Take it easy with workouts at first. Low- and moderate-intensity routines are the best way to get in the habit. Take it slow and easy.

Tips adapted from WebMD¹⁵



What's the Big Deal About Farmers Markets?

Why go to farmers markets when you can just head to the big-box stores to do all your grocery shopping? Besides the freshness of organic, nutrition-packed produce and other items you get at farmers markets, the benefits are big deals.

Shopping at farmers markets nearly guarantees you are buying produce the way nature intended it.

Here are three big reasons why farmers markets are the place to go:

1. Family farmers rely mostly on local customers. Family farmers' prospects of staying in business is nearly 10% greater than farmers who sell in traditional markets.
2. Shopping at farmers markets promotes strong local economies. Your money often stays in your community.
3. Shoppers at farmers markets often save nearly 25% annually on their food budget.

Tip adapted from EarthShare¹⁶

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues.

We love being introduced!

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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.

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You cannot invest directly in an index.

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¹ <https://www.cnbc.com/2018/11/20/jp-morgan-sees-a-slowdown-coming-with-economy-growing-at-less-than-2-percent-in-2019.html>

² <https://tradingeconomics.com/united-states/gdp-growth>

³ <https://www.frbatlanta.org/cqer/research/gdpnow.aspx>

⁴ <https://www.bea.gov/news/schedule>

⁵ <https://www.cnbc.com/2018/08/14/us-economy-seen-strong-in-2018-to-slow-in-2019-cbo.html>

⁶ <https://www.marketwatch.com/story/seemingly-dovish-powell-says-interest-rates-are-just-below-level-where-they-wont-stimulate-economy-2018-11-28>

⁷ <https://www.marketwatch.com/story/seemingly-dovish-powell-says-interest-rates-are-just-below-level-where-they-wont-stimulate-economy-2018-11-28>

⁸ <https://www.cnbc.com/2018/07/10/white-house-releases-list-of-goods-hit-by-200-billion-in-tariffs.html>

⁹ <https://www.businessinsider.com/us-canada-mexico-trade-deal-usmca-nafta-congress-vote-block-2018-10>

¹⁰ <https://qz.com/1511247/the-us-dollars-unexpected-strength-stands-out-in-the-market-wreckage-of-2018/>

<https://m.benzinga.com/article/12500556>

¹¹ <http://www.freddiemac.com/pmms/archive.html>

¹² <https://www.goodhousekeeping.com/food-recipes/easy/a24178537/beef-stroganoff-recipe/>

¹³ <https://www.irs.gov/newsroom/tax-reform-affects-if-and-how-taxpayers-itemize-their-deductions>

¹⁴ <https://www.golfdigest.com/story/the-putting-alignment-mistake-youre-making-and-how-to-fix-it>

¹⁵ <https://www.webmd.com/fibromyalgia/default.htm>

¹⁶ <https://www.earthshare.org/market/>