CLARO ADVISORS

Quarterly Newsletter
January 2019

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HAPPY NEW YEAR

Happy New Year to you and your families- we wish you good health and happiness in 2019. The 4th quarter was not pleasant for the stock market, which kept us quite busy over here at Claro. For many of you we used the volatility as an opportunity to pair gains with losses and to re-balance your accounts. It was a stark reminder that markets do go down, despite what feels like a very long bull market. Please find our 4th Quarter market recap to follow.

For Claro, our growth continues. We've added Emily Wanschers to our staff as a Client Service Manager. Emily spent the last 9 years at an accounting firm in Boston and brings a great attitude and a detail oriented approach to working with clients. Emily will work alongside Allison Maier on our client service team. As an organization, we are now a team of 12 and counting. We remain focused on continuing to do what's in our clients best interests and we look forward to working with you all in 2019.

Lastly our Chief Operating Officer, Jen Street, just finished a website overhaul and we'd love for you to check it out here. Although our previous website was only 4 years old, we continue to re-invest in our business with an emphasis on creating a great client experience. Having an expanded, robust website was a 2018 goal of ours and we would welcome any feedback.

Best always,

Ryan Belanger, *Managing Principal*

GLOBAL FINANCIAL MARKETS HIGHLIGHTS - Q4 Update Highlights

By Michael E. Mullin, CFA

- Investors wishing for a Santa Claus rally this year instead got stockings full of coal as the S&P 500 closed down -19.8% from its September high on Christmas Eve, just below the 20% mark that typically defines a bear market. And despite a brief post-Christmas rally, the S&P 500 finished off -9% for the month, its worst December since 1931. This swept away what little gains we had this year as the market was down -13.5% since September and-4.4% for all of 2018.
- In a broad market sell-off, Small Cap U.S. stocks as measured by the Russell 2000 Index, were even more volatile and slumped -20.2% in the year's final quarter. What started promising for small-caps in 2018 with corporate tax reform and strong consumer demand, finished with a fizzle as the index was down -11% for year.

U.S. Stock Markets	Month	Quarter	2018
S&P 500 Index TR	-9.0%	-13.5%	-4.4%
Dow Jones Industrials	-8.7%	-11.8%	-5.6%
NASDAQ Composite	-9.5%	-17.5%	-3.9%
Russell 2000 Index	-11.9%	-20.2%	-11%
International Stock Markets			
MSCI EAFE Index	-5.0%	-12.9%	-16.1%
MSCI Emerging Markets Index	-2.9%	-7.8%	-16.6%
U.S. Fixed Income			
90 Day T-Bill	0.2%	0.5%	1.3%
Barclays Aggregate Bond Index	1.8%	0.0%	-1.6%
S&P National AMT-Free Muni	1.2%	-0.2%	-0.6%
60/40 Benchmark	-4.1%	-7.8%	-5.7%
Gold	5.0%	7.7%	-0.9%
Oil (WTI Spot)	-11.0%	-38.3%	-25.3%
Bitcoin	-7.1%	-44.1%	-73.4%
* As of December 31, 2018			

- International markets were dragged into the mix as concerns of stalling global growth, the ramifications of the ongoing trade disputes, and the continued negotiation of the United Kingdom's departure from the European Union; have all weighed heavily on markets. The MSCI EAFE Index was down -13% for the quarter and finished off -16% for the year.
- Emerging markets surprisingly were off just 3% for the month of December and fell -8% for the quarter. However, they still finished down -16.6% for the year primarily due to continued trade disputes and a strong U.S. dollar.
- As one can imagine, investors found some safety in fixed income markets. With short-term rates on the rise and money market yields close to or above 2%, Cash was indeed king for 2018. Municipal and investment grade Corporate Bonds also provided some shelter for capital preservation and total return with interest.

[1] 60/40 Benchmark is represented by a 60% Equity and 40% Fixed Income allocation using standard asset class benchmarks. Equity weighting is 60% U.S. Large Cap, 10% U.S. Small Cap, 20% International, and 10% Emerging Markets. Fixed Income is 35% Aggregate Bonds and 5% Cash Equivalents
Data Sources: https://us.spindices.com/ https://www.msci.com/indexes https://ycharts.com/ https://www.morningstar.com/

GLOBAL FINANCIAL MARKETS HIGHLIGHTS - Q4 Update (cont.)

Policy Decisions

It's often said that bull markets don't die of old age; but they can be killed by bad policy decisions whether fiscal, monetary, or both, it often doesn't matter. The decision making by the powers that be in Washington (regarding trade negotiations, government shut-down, etc.) have the markets confused if the tactics will be helpful or hurtful, and as we know, markets do not like uncertainty.

Meanwhile, the Federal Reserve is doing its part in creating market anxiety by continuing along its path of raising interest rates, despite what most market strategists view as benign economic data. The market would prefer lower rates, yet the Fed seems more concerned about inflation, rate normalization, balance sheet reduction, and being ahead of any potential asset bubbles. Time will tell which is the correct path.

Economic Strength

The economy is doing its job to support investors. Corporate profits are growing, jobs are plentiful and business investment remains strong. Meanwhile, consumer confidence and spending are high, wages are rising, and household balance sheets are the healthiest in decades.

Although many would consider the current economic fundamentals to be healthy, the concern is that we are peaking, and a slowdown is just around the corner. This may have some merit if the yield curve continues to flatten across maturities which can slow down the flow of capital; banks could become less willing to lend, while businesses and consumers less inclined to borrow.

New Year

It will be interesting to see what 2019 has in store with further fiscal and monetary decisions forthcoming. If stimulus is removed further, there could be a prolonged pause in economic growth and investors will have to proceed with caution. If an agreement on trade is reached with China and the Fed decides to pause, it could be a boon for asset prices.

Investors should therefore brace themselves for more volatility. During this recent sell-off, the Wall Street Journal reported that "nearly 85% of trading is on autopilot – controlled by machines, models or passive investing formulas creating an unprecedented trading herd that moves in unison and is blazingly fast". We saw a good deal of that over the year's final quarter with tax-loss selling, short covering, and pension rebalancing all creating huge intraday swings in both stocks and bonds. This may continue to start the new year.

Portfolio Positioning

Despite all the noise, investors should remain calm in the face of volatility and not let emotions drive investment decisions. Market pullbacks and downturns have occurred throughout the history of the stock market. Yet, stocks have managed to average a 10.3% annual return over the past 100 years when including reinvested dividends. The risks of being out of the market are huge compared to the risks of being in it.

Even better, is that during market corrections investors have a great opportunity to buy at a discount. "When major declines occur, …they offer extraordinary opportunities to those who are not handicapped by debt" . So, investors should not get caught up in the doom and gloom headlines, nor the euphoria that exists during bull markets. Instead they should remain focused on their long-term goals and make sure their portfolios are positioned accordingly.

2 Wall Street Journal. "Behind the Market Swoon: The Herd like Behavior of Computerized Trading" 12/25/2018
3 Berkshire Hathaway 2017 Letter to Shareholders

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