Dear Client:

As we begin 2019, we say Happy New Year…and good riddance to 2018, as far as the financial markets are concerned!

The S&P 500 stock index fell over 6 percent last year. Of course, no one likes it when the stock market falls, but the noteworthy item is that this was the first time in 10 years that the S&P 500 had a negative return. Over the last 92 years, it has fallen about once every four years. So, instead of asking why stock prices dropped, we should be asking why they hadn't dropped sooner!

So, the real question is: what happens next — will prices continue to fall, or will 2019 produce positive returns?

No one can say with certainty what will happen, of course, but the economic outlook is quite favorable:

- Unemployment remains at historic lows, and December's job growth of 312,000 new jobs was startling in its strength;
- Wage growth is strong, with paychecks rising more in 2018 than at any time in the past decade;
- Inflation remains low, and the Federal Reserve says it is within targets for economic growth;
- Housing prices remain strong nationally despite a slight increase in interest rates;
- Manufacturing and supply-chain indicators are still posting measurements above 50, which suggests that America's leading corporations expect their businesses to grow;
- Corporate stock buybacks hit an all-time high in 2018, demonstrating that CEOs believe their companies' stock prices will be rising;
- Corporate profits in 2018 were at an all-time high.

Of course, not all is well in the world. Brexit, trade wars, North Korea, the federal shutdown and other issues attracted all of the attention, especially in the last three months of the year. The result: these concerns outweighed the above bullet points and instead caused the last month of the year to be the worst December since 1931.

Why aren't we concerned about this? While such a decline is concerning, why are we not recommending any changes? The answer is simple: Since 1926, the worst performing quarters had average declines of 23 percent. History tells us that taking a steady approach tends to be rewarded. For example, in the year following a quarterly decline, stocks rose an average of 26 percent. After three years, the stock market was up an average of 38 percent, and after five years, the stock market was up, on average, 91 percent.

Again, past performance doesn’t guarantee future results, but these statistics, coupled with the strength of the economic environment, provide a degree of confidence, thus making it essential that you maintain a long-term perspective regarding your investments. Indeed, your portfolio is designed to focus on your long-term goals and not monthly or annual performance.

Sadly, this is easier said than done as the media never talks about any of this. That’s because bad news sells — so keep in mind that articles and TV news segments are written by reporters and editors desperate to capture an audience so they can sell ads and subscriptions; they aren’t financial advisors serving the best interest of their clients.

No one can control what happens in the financial markets, but you can control how you respond to it. You can also make sure that the rest of your personal finances are in good order. This means making sure you have:

- Sufficient cash reserves;
- Proper insurance coverage;
- Current estate planning documents, including wills and trusts, medical directives and powers of attorney;
- The right kind of mortgage for your home;
- Plans for debt reduction;
- Proper college savings;
- Effective New Year’s resolutions. As you look forward to 2019, let us help as you strive to achieve new goals or as life changes. The more you share with us, the more we can serve as your partner in this journey together.

If you have questions or need help, contact your advisor.

And, here’s some information to help you plan effectively and take advantage of your opportunities for 2019:

- If eligible, you can still make an IRA contribution for 2018. The deadline is when you file your tax return, no later than Monday, April 15. Contributing might help you lower your 2018 taxes. You may also fund your 2019 contribution now as well.
    - For 2018, you can contribute up to $5,500 ($6,500 if you are age 50 or older).
    - For 2019, you can contribute up to $6,000 ($7,000 if you are age 50 or older).
- You can also contribute more money than last year to your workplace retirement plan, so be sure to talk to your HR department.
- If you or your parents reach(ed) age 70½ in 2018 or 2019, make sure you comply with all the rules pertaining to required minimum distributions.
    - Withdrawals must be made by April 1 of the year after you reach 70½.
    - Donating your RMD directly to charity might help lower your Social Security taxes or Medicare costs.
- Annual tax documents for your investments, called Form 1099, will soon begin arriving in your mailbox. Don’t be surprised if some of your investments generated capital gains

distributions. Yes, this can happen even during a year when a fund has declined in value. You won't experience anything like the worst offenders in the fund industry — which declared up to 40 percent or more in capital gains despite falling in value — but these distributions are inherent aspects of owning mutual funds and exchange-traded funds. We are careful to select funds that minimize distributions annually, but they can't be completely avoided, even in down years like 2018. None of this is an issue for your IRAs and workplace retirement accounts. If you have any questions or need help, please contact your advisor.

Let me also share a word of caution: Periods of market volatility like these tend to bring out scam artists and slick, high-pressure salespeople, who try to attract you with promises of "guaranteed returns," "low taxes" and "safe from market crashes." Often, they entice you with invitations to "free lunch" seminars where they use clever marketing materials to promote products, ranging from real estate deals to annuities. Please, before you make any investment decision, talk with your advisor to see if those products are truly in your best interests.

Let me close by saying thank you! Last year's merger of Edelman Financial Services with Financial Engines has gone smoothly, and our goal for 2019 is simple: to continue providing you with the very best in financial advice and service.

Thank you for the privilege of serving you and your family, and may the new year bring you health, wealth and happiness.

Regards!

Ric Edelman
Co-founder and Chairman, Financial Education and Client Experience

EDELMAN map managed asset program