Staub Financial Newsletter January 7, 2019

Happy New Year, we hope that this note finds you in good health and great spirits.

As you peruse the year-end statements, many will say "good riddance to 2018" from an investment perspective. Perhaps the comments will be even stronger. This short update is designed to combat those feelings and put the numbers and the year into better financial perspective.

Initially, it is important to note that over the past 12-18 months, we reduced stock exposure for many clients who are nearing retirement or in the early stage of retirement. Prior to this recent market pullback, our more cautious stance wasn't exceptionally fruitful during the bull market. However, the pullback is a stark reminder of why identifying risk and potential pitfalls can be more significant than beating the indexes during euphoric markets.

From Our Staub Financial - November 3, 2018: "The downside (possibly what is beginning to occur right now 11/3/18) is normally more ferocious on the back end of that same euphoria. The impact is sometimes insurmountable as seen in these more drastic cases:

- *Great Depression - it took 26 years to get back to pre-depression highs.*
- *NASDAQ / Tech bubble - it took 14 years to get back to the pre-Tech bubble high*
- *In the case of Japan….is still 40% below the high it reached back in December of 1989"*

Active management and our focus on value investing has been a bit unpopular over the past few years in favor of "growth mode" similar to the tech bump from 1997-1999. In Q4 of 2018 a major selloff began which was exacerbated with the S&P down 9.2% last month.(1) ***This was the worst December since 1931*** as the fears highlighted above in the last newsletter actually played out. (2)

A closer look indicates that 2018 had two very distinct periods:

- Jan 1st – Sept 20th. The first three quarters saw a period of market appreciation dominated by US growth stocks, notably FAANG stocks that have been mentioned ad nauseum in the newsletters. These are the stocks we've been somewhat leery of. During this period, First Eagle Global I (our largest holding), for example was up only 1% vs. 6.4% for the MSCI World.(3)

- The last quarter risk aversion and fear of recession returned to markets. The tech sector and the NASDAQ were hit especially hard. Although the overall market was down significantly, dispersion between value stocks and growth stocks with a spread of roughly 4% in favor of value occurred. During that time FE Global I was down -9% vs. -14.3% for the MSCI World and -14% for the S&P 500.(4)

Returns from 9/21/18 – 12/20/18(5)

- S&P 500 Index: -15.6%
- NYSE FANG+ Index: -19.8%
- MSCI EAFE Index: -12.8%

- GLD (gold) ETF: +6.1%
- First Eagle Global I: -9.2%
- MSCI World Index: -14.3%

What Happened?

The corporate earnings reports, which haven't been much of a concern to many, were not as rosy as predicted. Companies could not sustain profitability at these levels into the future. Fiscal stimulus in the form of the corporate tax break poured gas on the economic fire. The corporate confidence and profits that was already strong in 2017 and did not need a boost, pushed consumer confidence to new highs early this year. This put pressure on interest rates and costs moving forward.

To piggyback off of an analogy made in previous newsletters, Goldilocks (the stock market) was rudely awakened by The Three Bears. Baby Bear (Lil interest rate hike), Mama Bear (Mrs. Earnings disappointments, and Papa Bear (Worldwide Sovereign Debt). They scared Goldilocks big-time. And just like that, she ran home. But don't fret, she is already out of her house again and may come back sooner as opposed to later. Bottom line, the selloff was drastic.

With the market off 20% from its high you must look at the bright side. There could be pockets of value. Some of the same companies that have been hammered recently and over the past few years (i.e. energy) are better priced. Companies like Schlumberger and Exxon are yielding 4.7% and 5.5% respectively.6 Those are ridiculously high dividend yields. Consider that Exxon's stock is yielding more than its own 7-year bonds. This is not recommendation to purchase, it is simply a fact.(7)

Lastly, in the investment world sometimes the key is not actually what you invest in, it is what you do NOT invest in that is sometimes much more meaningful. As it relates to New Year's resolutions, individuals are often rewarded long-term by avoiding situations that have negative consequences for emotional and/or physical health. Lately, some investors were rewarded for being more aggressive over the past few years. However, beginning in October, the temptation and recklessness caught up to them. I am reminded that in the short-term, the stock market is a voting machine. In the long run it is a weighing machine. Perhaps it needed to lose a few pounds. At times, it can be difficult to stomach the losses, but the current volatility creates opportunity long term and many of our fund positions were buying versus selling.

Our entire firm sends positive vibes to you and your families. We are working diligently to protect your livelihood and take it very seriously. If you would like a quick phone conversation or a face-to-face meeting, please call or email.

Make it a happy a prosperous 2019.
-Corey & Dan

1,3,5,7 Morningstar Office
2,5,6 Wall Street Journal – December 2018
4, First Eagle – September 2018

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