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The Archvest Advantage Q4 2018 Newsletter

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Market Recap

The week before Christmas was the worst week in a decade with the S&P 500 dropping almost 9% in one week. In addition, the shortened trading day on December 24th was coined with the worst Christmas Eve trading day in the history of the market.

Right when one thought all was lost, the market came back. It was with neck-breaking speed that we witnessed the greatest day in the history of the stock market with the Dow ending the day after Christmas up 1,086 points. In the last four trading sessions of the year, the market regained almost all that was lost for 2018. The Dow was down, 3.5% the S&P 500 was down 4.4%. The international markets fared the worst ending down a blistering 13.8% as measured by the MSCI EAFE Index.

To Invest or Not to Invest, that is the Question

As Hamlet asks himself in his soliloquy, we often ask ourselves this question with regards to investing. Not investing is embracing certainty, but can ultimately lead to the ruin of a long-term financial plan. In today's environment, interest rates are 2.25% at best. Currently, inflation is running at about 2.5%. Thus, with no risk, you will lose .25% to inflation each year. It's a certain result but it's not a desirable one.

There is a growing concern that the market has peaked and might have reached the stage of euphoria in the market cycle of investor behavior back at the end of September. Our national debt, slowing economic growth, as well as the actions of the Fed, have investors facing a wall of worry and uncertainty. Couple that with the herd-like mentality of computerized trading and voilà, we've got the recipe extreme volatility in the markets.

Going forward and remaining invested, is embracing uncertainty. We, just like Hamlet, do not know what the future holds. However, unlike Hamlet, we can draw on history. Over the last hundred years, stocks are consistently up over a rolling ten-year period. There are of course notable exceptions to this, like the Great Depression and the Great Recession. However, the overwhelming odds are that markets will be up. Thus, to invest for the long-term is the answer.

The next logical question is how do we stay invested in this market? We have to focus on the thing we can control: risk. With the recent market selloff, equities approached their historical risk levels, which we have not seen in the past several years. A way of interpreting this risk is to look at a measure known a standard deviation. The standard deviation tells us how an investment will vary around its average return. Looking back over the last 20 years the risk of the

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US stock market as measured by the S&P 500 has been 15%. The average annual return during the same period was 5.5%.

During 2017 we kept a close eye on the level of risk in the market and we became concerned. The risk level that year was 3.9% while the return was a staggering 21.8%. Knowing that risk should revert to its mean over time, we were cautious about the markets going into 2018. Of course, we did not expect a reversion to the mean to occur within one year, but that is exactly what happened. We ended 2018 with the market risk at near historical levels, 15.3%.

With risk going back to historic norms we then look to the headwinds facing the economy. We believe these risk levels will remain elevated or could increase, and as such we may tactically shift some of the equity exposure to bonds as well as continue to use structured products to hedge our downside risk. We can't time the markets in terms of calling the price highs and lows, but we can control the level of risk we are taking in portfolios and accept the returns that come with taking on the appropriate level of risk for your plan.

In addition, we will continue to reaffirm the level of risk you are taking relative to your goals. The market will have good years and challenging years and we expect the returns will remain very lumpy going forward. The key to a successful investment strategy is to stay invested. Don't worry, you're not Hamlet and Laertes is not waiting for you with a poisonous sword.

Credit Freeze

As we discussed in our last newsletter, we encouraged you to freeze your credit to help protect yourself against fraud should your identity be stolen. Freezing your credit is now free to do and parents can freeze their child's credit if the child is under age 16. It will take roughly 5 minutes per bureau to complete.

You may access the three credit bureau through our website to freeze your credit at:
https://archvestwa.com/creditfreeze

From the Tax Desk

Now that we are officially in 2019 be sure to adjust your retirement plan contributions accordingly. The deferral limits have increased for both retirement plans and IRA accounts. The annual contribution limit for IRA accounts is now $6,000 and for retirement plans like 401(k) and 403(b) accounts, the deferral limit is now $19,000. And for those over 50, you may also make catch up contributions up to $6,000. Should you have any questions about your deferrals please contact us with any questions.

If you made adjustments to your withholding in 2018, please review the withholding instructions again.

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The 1099R information from the custodians will become available in late January with the 1099 B and 1099 DIV following in mid-February. Please note that these 1099 documents may be subject to revisions. We can send the documents directly to your tax preparer. Please let us know if you would like us to do so. Once your returns are complete, we would be happy to review it prior to filing.

As the tax information becomes available later and later each year, we would encourage you to go on extension. You will still need to make any tax payments by April 15th, but the extension will give you additional time to make sure that your return is accurately prepared. 2018 is going to be a complicated tax year due to the new tax laws. Our recommendation is to do take the time to do it right vs. rushing and having to amend the return.

As always, we appreciate the confidence you have placed in us to work alongside you regarding your planning needs. Be sure to follow us on Facebook, LinkedIn and Twitter as well as our RSS feed to stay up to date on what we're reading and thinking.

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