BENJAMIN F. EDWARDS & CO.
INVESTMENTS *for* GENERATIONS

Financial Perspectives

Winter 2018

A Volatile Mix

Mark P. Fellows
Senior Vice President
Western & Florida Regional Manager

6300 S. Syracuse St.
Suite 210
Greenwood Village, CO 80111

Telephone 303-770-6621
Toll Free 855-620-6621

A Perspective on 2018

Through the end of September 2018, the Standard & Poor's 500 index was up 10.5% year-to-date. Through the end of October, the gain retreated to just 1.4%. While a small recovery was posted through the end of November (up 3.2%), the broad index remains down considerably from where it was for the first nine months of the year.

The stock market seemed to be doing so well through the summer…what happened?

The first half of the year was characterized by run-away performances in a handful of internet stocks. Those four or five stocks accounted for most of the gain in the S&P 500. In other words, without those stocks, the S&P would have had a net loss for the year as of the end of June.

The second half of the year was characterized by the serial collapse of those same internet stocks. The reversals in those stocks were not entirely due to changing fundamental factors, not even close. A lot of the selling pressure seemed to rise simply from a change of mood. Investors began to realize that these over-loved and probably over-owned darlings were, in fact, vulnerable after all. The engines that had been powering the plane's climb higher were sputtering. Everybody onboard knew it. When those engines began to flame out, there was a rush for the parachutes.

The October sell-off was exacerbated by mechanical, forced selling. Much market activity is driven by systematic, trend-following and momentum traders. Back when stocks were trending higher, those programs continued to buy without regard to "value." When formerly leading stocks began to drop below moving averages and make lower lows, those same traders became forced sellers, irrespective of value.

No doubt, several other factors – such as slowing global economic growth, trade war fears and concerns of peak earnings growth – contributed to the October slide. The month of November produced a couple examples of rebounds, from deeply oversold conditions, in which the averages rallied steeply on relatively low volume. The first of those spiked to its high on the day after Election Day, but it was followed by an equally steep plummet back to near the October lows. The second rebound hit its high on a Monday morning (December 3) on news of progress at the G20 meeting, but gave back most of its gain in just two trading sessions.

The steep declines have encouraged a flight to safety that has bid up prices of Treasury Notes and Bonds. That has reduced those longer-term yields even while the Fed is raising short-term rates. This "flattening" of the Treasury yield curve has stoked fears about a possible inverted yield curve and concerns about a recession.

Like the aftershocks following an earthquake, the back-and-forth volatility and big daily trading ranges will gradually subside. While we're waiting to be lulled back into the blissfulness of a dull trading range market, we'll need to be alert for additional spikes in volatility. In particular, if the averages can climb back above their November rebound highs, that might trigger a rush higher as investors take it as an all-clear signal. Conversely, sustained trading below the October/November lows might be an excuse for another move to a lower air pocket.

While December is typically the least volatile month, as measured by the Chicago Board Options Exchange Volatility Index (the "VIX"), wide swings have already occurred this month. Such volatility in the mature phase of the 10-year bull market may portend more to come, with 2019 possibly being more volatile than 2018.

What Might 2019 Bring?

We believe the market volatility experienced this year is likely to be the norm, not the exception, as we move into the new year. Several variables show no signs of loosening their grip on investor confidence. One of the most dominant players is likely to be corporate profits. For the third quarter, according to *Factset,* about 78% of the companies in the S&P 500 reported positive earnings surprises and about 61% reported sales that came in better than expected. The blended earnings growth rate is about 25.9%, the highest quarterly earnings growth reported since the third quarter of 2010. There is concern that corporate earnings growth may be softening, as *Factset* also reported that for the fourth quarter – as of the end of November – about 67 companies have issued negative earnings guidance versus 30 that have commented positively. According to *Factset*, "the markets often reward positive earnings surprises less than average and punish negative earnings surprises more than average."

The future course of Federal Reserve decisions about short-term interest rate increases will likely continue to impact volatility. Comments about the pace of rate hikes often influence investor confidence as the Fed continues to balance interest rates with its inflation expectations, its 2.0% inflation target and unemployment goals. Recently, the Consumer Price Index was up 2.5%, while core prices that exclude food and energy were closer to the goal, rising 2.1%. There continues to be a lack of consensus among voting Fed members about the number of rate increases pegged for 2019.

Recent statistics for the housing market continued to show weakness. This can have a ripple effect and impact sectors that supply goods and services to the housing market. Mortgage rates are up following the interest rate increases this year, pushing the American Dream out of the reach of a larger population. Trade and tariffs play a major role in market turbulence, as seen through the on-going strife between the United States and China. While both sides send out an olive branch from time to time, this serves to sway the markets and any ground gained by investors quickly evaporates. At the recent G-20 Summit, there was talk of an accord, so the way this plays out will likely contribute to uncertain markets. A recent trade agreement between the United States, Canada and Mexico still needs to be vetted. Continued talk of manufacturing plant closures and higher raw materials costs can raise volatility.

Consumer spending will likely influence volatility as we begin the new year. Investor confidence in the strength of the economy alters spending as consumers have less fear of needing to "save for a rainy day" when moods are high. But recent consumer sentiment indicators have shown greater concerns about future economic times. An increasing number of economists are now talking about moderating economic growth in 2019. Black Friday and Thanksgiving weekend retail sales were strong this year, but the true test will be how consumer spending holds up after the holiday and post-holiday clearance expenditures subside. The shift from brick-and-mortar shopping is likely to continue, and a big question is what level of store closings will be announced during the first quarter of 2019.

With the mid-term elections behind us, pundits will review the impact of the tax cuts on corporate spending and profitability, the Federal budget and the Federal deficit. Threats of government shutdown will add to market gyrations.

So Now What Does an Investor Do?

The end of one year and the first few months of a new year present a great opportunity to review your investment objectives, risk orientation and overall financial plan. We all need to be reminded that market volatility alone is not a prudent reason to move away from the financial plan you and your advisor developed, which was intended to serve you over the long term. Ask your financial advisor questions about your investment goals and your time horizon. Do you anticipate any lifestyle changes that could impact these goals? With market volatility comes the risk that your actual asset allocation may have shifted from your targets and it may be time to move your weightings back to more appropriate levels.

Take Note of Cost of Living Adjustments

Cost of living adjustments (COLAs) impact a variety of tax and retirement limits each year. For 2019, adjusted gross income (AGI) limits have increased for making deductible IRA contributions and non-deductible Roth IRA contributions. In addition, you may want to make note of the following:

What's Changing?	2019 Limit	Change
Traditional and Roth IRA Contribution Limit	$6,000	+ $500
401(k), 403(b), 457, and Government Thrift Savings Plan Employee Salary Deferral Contribution Limit	$19,000	+ $500
SIMPLE IRA Employee Salary Deferral Contribution Limit	$13,000	+ $500
Standard Deduction for Married Filing Jointly	$24,400	+ $400
Standard Deduction for Single Filers	$12,200	+ $200
Annual Gift Exclusion Limit	$15,000	No Change
Unified Estate and Gift Tax Exemption	$11,400,000	+ $220,000
Social Security Benefits		+ 2.8%

Plan Now for a Peaceful and Debt-free Holiday

Thanksgiving seems almost a distant memory now, and Christmas is almost here! It's easy to get carried away with all the exhilaration of the holidays, but don't let the excitement steer you to more anxiety than peace this holiday season.

Do you remember every gift that you have received for the past ten years? How about five? If you asked your children, would they even remember what you gave them last year? Many times, what they do remember is time spent with family playing games, or singing holiday tunes and just simply sharing moments together. Holiday joy doesn't have to lead to financial damage in the new year.

Plan ahead. Save yourself from over spending and creating more stress than joy this holiday season. You don't have to spend a fortune to make lasting memories.

Follow these tips for planning a peaceful and debt-free holiday:

1. **Make a holiday plan** – Who will you be visiting? Will you be hosting a get together? What will you be cooking? What will you need to bring to other holiday gatherings?
2. **Draft a budget** – Now is the time to decide who is getting presents, what you are buying and how much you will be spending. Don't wait until you hit the store to make these decisions.
3. **Consider gift exchanges** – Instead of buying a gift for every single person, a fun alternative is to play a game where gifts are passed around or maybe even "stolen." You could also consider gift exchanges where each person picks a name of someone to buy for instead of buying something for everyone.
4. **Consider homemade gifts or gifts of your time** – Home baked goods or offers for babysitting could be more appreciated than a store-bought gift. There are lots of DIY gift ideas on the internet. Explore and you may find something that touches your heart.
5. **Create traditions** – These are the things everyone will remember from year to year.

Enjoy a peaceful holiday season and don't stress too much!

A Few Tax-Related Reminders to Consider Before the End of the Year

- If you want to recognize a gain or loss for this year, sell any securities by December 31.
- Gifts of cash or securities to family members or charities must be completed by December 31.
- 529 Education Savings Plan contributions must be made by December 31 for federal gift tax purposes; state tax deadlines may vary.
- If you reached age 70½ before 2018, or you inherited an IRA from someone other than your spouse, remember to take your required minimum distributions (RMDs) before the end of the year. A 50% IRS tax penalty may apply if you don't.
  (Note: If you are still working, you may be able to delay your RMDs from your current employer's retirement plan until after you retire or separate from service.)
- Start preparing now for filing your 2018 income tax return by making a folder where you can collect important tax documents, such as your W-2 and 1099 forms, so you'll be ready when you start receiving them. A variety of tax reforms went into effect in 2018. If you would like more information about what has changed, ask for our *2018 Tax Act Summary Chart* or our report titled, *Tax Considerations for 2018*.

Market Recap

Market Summary (As of November 30, 2018)

	Year-to-Date	Trailing 12-Months	3-Year Annualized	5-Year Annualized
DJIA	3.31%	5.22%	12.96%	9.68%
Nasdaq	6.19%	6.64%	12.79%	12.54%
Russell 2000	-0.15%	-0.70%	8.57%	6.05%
S&P 500	3.24%	4.25%	9.88%	8.86%

Sources: Benjamin F. Edwards & Co. and Bloomberg

	U.S. Treasury Yields
Two-year	2.78%
Five-Year	2.81%
10-year	2.99%
30-Year	3.29%

Source: Bloomberg (as of December 1, 2018)

U.S. Stocks

Performance of S&P 500: Index Price Returns

for Periods Ended November 30, 2018

Sector	Weightings	Year-To-Date	Trailing 12-Months	Five-Year Annualized
Info. Technology	19.9%	7.57%	7.53%	16.17%
Health Care	15.8%	14.69%	13.82%	11.44%
Financials	13.7%	-3.63%	-1.87%	9.12%
Comm Services	9.9%	-9.76%	-4.55%	-0.81%
Cons Discretionary	9.9%	8.69%	11.17%	10.46%
Industrials	9.4%	-4.69%	-3.00%	6.93%
Cons Staples	7.4%	-1.87%	0.06%	5.47%
Energy	5.4%	-8.81%	-4.49%	-5.12%
Utilities	3.1%	4.99%	-1.68%	7.87%
Real Estate	2.9%	2.47%	1.44%	7.20%
Materials	2.6%	-9.98%	-8.41%	4.11%

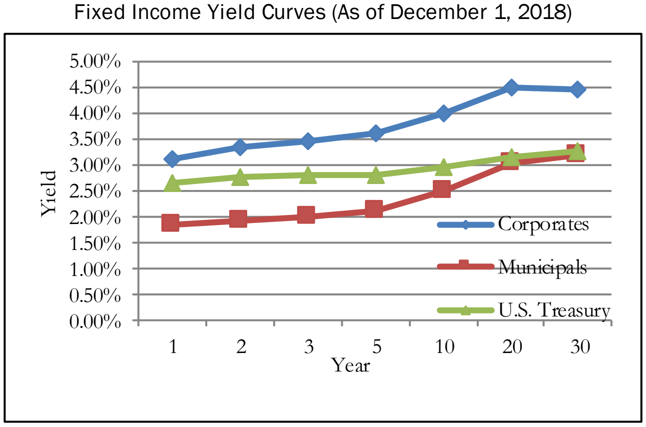
Ranked by highest to lowest index weightings; Weightings may not equal 100 due to rounding

Source: S&P®

- A couple of the big questions facing the markets and investors as we transition from one year to the next are the strength of the economy and the outlook for economic growth. A recent update to third-quarter Gross Domestic Product showed the economy grew at a 3.5% annual rate, which matched the initial estimate and consensus expectations. Personal consumption and inventories were net contributors, while net exports continued to be a drag on growth. The GDP Price Index increased at a 1.7% annual rate, still below the Federal Reserve's 2.0% target. The Federal Reserve Bank of St. Louis expects real economic growth to come in at about 3.0% in the second half of 2018. The Conference Board recently said it expects real GDP for 2019 may also be 3.0%.
- Retail sales rose 0.8% during October – well above the consensus expected gain of 0.5% – and were up 4.6% year-over-year. Sales excluding autos rose 0.7% – also above the consensus expected gain of 0.5% – and were up 5.9% over the past year. The National Retail Federation expects overall retail sales for 2018 to come in at an overall gain of 4.5%, an increase from the prior estimate of a range from 3.8% to 4.4%.

Fixed Income

Fixed Income Yield Curves (As of December 1, 2018)



Sources: Bloomberg, Bloomberg US Corporate (A) Fair Value Index, Thomson Reuters M M I

- The US Treasury market has unequivocally reacted to the statements from Federal Reserve Chairman Powell about the future prospects of interest rate increases for the remainder of 2018 and 2019. The recent statements regarding policymakers' need to "slow down" and a mention that rates are "just below" a neutral level have caused the 10-year Treasury bond (Bond Market Benchmark) rally from 3.24% in early November to a 2.86% yield at the time of writing. The 30-year Treasury has rallied from 3.46% to 3.13%, while the 2-year Note has tightened from a 2.97% to a 2.73% yield.
- The municipal market has followed suit with the Treasury market; the strongest rally was seen in the 15-year maturity range which adjusted from a 3.13% yield to 2.73% yield. Municipal new issuance has continued to stay low in 2018 due to the regulation change on advanced refunding. New issuance is off 15% year-over-year, and that is a theme that will likely continue for several years.

CONTRIBUTING AUTHORS Bruce Buerkle, CFA; Senior Vice President and Manager, Securities Research | Pete Biebel; Senior Vice President and Manager, Alternative Products and Strategies | Theresa Fry; Senior Vice President and Manager, IRAs and Retirement Planning | Joel Wiesehan; Senior Vice President and Manager, Fixed Income | Debbie Placke; Vice President and Manager, Financial Planning Marketing and Tools

IMPORTANT DISCLOSURES Past performance is not a guarantee of future results.

The information provided is based on internal and external sources that are considered reliable; however, the accuracy of this information is not guaranteed. This piece is intended to provide accurate information regarding the subject matter discussed. It is made available with the understanding that Benjamin F. Edwards & Co. is not engaged in rendering legal, accounting or tax preparation services. Specific questions on taxes or legal matters as they relate to your individual situation should be directed to your tax or legal professional.

Diversification does not guarantee a profit or protect against loss.

Investing in securities entails certain risks, including the potential loss of all or a portion of the proceeds invested. Individuals should consider their specific financial needs, investment objectives and risk tolerance before making an investment.

Equity investments refer to buying stocks of U.S. companies as well as companies outside of the U.S. The market capitalization of U.S. companies is used to group large, medium (mid) and small companies. The investment return to the owner of stock (shareholder) is in the form of dividends and/or capital appreciation. Shareholders share in both the upside potential and the downside risk. Dividends are not guaranteed and are subject to change or elimination.

Mutual funds and ETFs are sold by prospectus. Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from your financial consultant and should be read carefully before investing.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions. Distributions from REIT investments are taxed at the owner's tax bracket.

An investment in a 529 plan will fluctuate such that an investor's shares, when redeemed, may be worth more or less than the original investment. Investors should carefully consider a 529 plan's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the 529 plan issuer's official statement, which should be read carefully before investing.

The return of principal for bond funds and funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings. Lower rated bonds are subject to greater fluctuations in value and risk of loss of income and principal than higher rated bonds.

Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value in your investment.

An index is not managed and is unavailable for direct investment. The Dow Jones Industrial Average (DJIA) is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The Nasdaq Composite Index measures over 5,000 NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The Russell 2000 is a stock-market index measuring the performance of 2000 small-capitalization stocks. The S&P 500 Index covers 500 industrial, utility, transportation and financial companies in the U.S. markets. S&P®, Standard & Poor's® and S&P 500® are registered trademarks of the Standard & Poor's Financial Services LLC.

BENJAMIN F. EDWARDS & CO.
benjaminfedwardsco.com *Member of SIPC*