Leigh Baldwin & Co.

Investment Brokerage

As 2018 dramatically draws to a close, we are reminded of the warning of philosopher George Santayana, "Those who cannot remember the past are condemned to repeat it." Coming in to this year, the US major averages had moved higher for nine straight years (2009-2017). Psychologically, and as a direct result of what academics call the "recency bias", we use our recent experience as the baseline for what will happen in the future. It is quite natural then that, as the market climbs to new highs, we forget or dismiss the fact that other outcomes can happen. In 2018, other, unfamiliar outcomes did happen and did they ever.

After a blistering start to the year, when the Dow had 11 new all-time highs in the first 18 trading days, the tarnish came off in February and March, as trade war fears began to hit the market and stocks lost all of January's historic gains and were firmly in the red. As the strong economy continued to grow and the new tax laws worked their way through the system, stocks climbed back, back enough to hit a an all-time high in early October. Uncharacteristically of this ten-year bull market, stocks have now staged a second, more vicious sell-off over the past 3 months, capped off with what will go down as the worst December for the market since the Great Depression some 87 years ago. So where do we go from here?

Just as we intellectually know that the market moves in cycles, with both bull and bear markets, we have to fight the urges to react to exaggerated moves in either direction. We need to not have the highs be too high and the lows be too low. This is way easier said than done, so the next best thing is to build portfolios that do not depend on timing the next market melt-up or melt-down but rather build portfolios that are designed to withstand the many possible outcomes that inevitably come our way.

2018 will go into the books as a tough year, with negative returns from stocks, bonds, many commodities, and most other asset classes that we can choose from. Going forward though, we believe the positive long-term case for equities, in the US and around the world, is still sound, albeit with some volatility now in the game. Interest rates, even after eight short-term rate hikes, are still relatively benign. Oil prices have fallen precipitously. Earnings and GDP have grown dramatically, and stock valuations are now much more favorable. To be fair, slowing growth in China and around the world could be a real negative as would a pro-longed trade war. Political unrest, here and around the world could also dampen stock performance.

We believe that a well-constructed portfolio, in line with personal goals, is the best way to combat our own personal biases. We appreciate your business in 2018 and we look forward to a healthy and prosperous 2019 and beyond!

112 Albany Street
Cazenovia, New York 13035
315-655-2964, 315-655-9138 fax
leigh@leighbaldwin.com