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The hits just keep on coming...

Former heavyweight boxing champion of the world, Mike Tyson, fought with a very simple strategy: ***Everyone has a plan, until they get punched in the mouth.*** The last quarter of 2018, specifically the last few months and weeks of the year, sure felt like a punch in the mouth for the global equity markets. However, we disagree with Mike's strategy (pssst...don't tell him!). Having a plan is paramount to being a successful investor and more importantly, sticking to that strategy, even when getting "punched in the mouth". So, while many four letter words came to mind during the final trading days of the year, one stood out to us...PLAN. A multitude of factors go in to establishing a customized investment plan. Your time horizon combined with your desired outcome, whether that be purchasing a home, putting a child through college or retiring with the same standard of living you are accustomed to, as examples, help determine the appropriate investment and asset allocation strategy. A change higher or lower in valuations of the underlining assets should have minimal, if any, impact on your overall plan, even if the change in valuation occurs drastically (like a punch in the mouth). Perhaps in Mike's hay day, his plan did not account for taking punches, rather he was purely focused on delivering them. If so, then certainly, were someone to sneak in a surprise blow (Google: Buster Douglas), he would no doubt be ill-prepared. In designing your investment strategy, we plan for the surprise blow. This can be done in a number of ways. At the portfolio level it can be done by allocating funds towards assets that are uncorrelated— not having all of your investments move in the same direction, up or down. This, by definition, is diversification and asset allocation. Beyond the portfolio, we can build defense within your plan by understanding your cash flow needs. Pre-funding your income and additional funds for 6-12 months may allow for a cash cushion of sorts, to better weather market fluctuations. From the Dutch Tulip Mania of the early 1600's to the Great Depression and Great Recession of the previous decade, markets have and always will deliver a sucker punch, of sorts. The better we understand and plan for that, the better probability we have of going the full "12 rounds".

Same tune, different song

As we look forward to 2019, the themes look to be very similar to 2018. In fact, much of the subject matter that stole headlines throughout the course of the previous year have yet to conclude. Much of the volatility we felt in 2018 was a result of absolute uncertainty. Markets as well as investors hate uncertainty. Headlines such as rising interest rates (how much?, how fast?), Brexit (will they?, won't they?), tariff worries (will there be a war?, what does it mean?), conclusion of a bull market (when will it end?...we provided our opinion in last quarter's newsletter), declining oil prices (is that good or bad?) and a government shutdown (when will it end?). These questions remain front and center as we move into the new year. Meanwhile, businesses continue to deliver strong earnings across multiple sectors of the economy by delivering goods and services, developing new technologies and providing opportunities to consumers as well as employees, throughout the globe .

Similarly to the headline hangover to start 2018, the themes we see pushing markets onward and upward are also familiar. The decrease in corporate tax rates for U.S. based companies will continue to provide a boost to corporate earnings. As we discussed a year ago, this effect to corporate earnings would take some time to make it's way through corporate America. Forward price to earnings estimates for the Standard and Poor's (S&P) 500 index dropped significantly immediately following the tax cut and remain at historically attractive levels. Initially we saw some companies, like Walmart, provide instant results because of this cut, by increasing their minimum wage, for instance. On November 29th, Patagonia CEO Rose Marcario posted a letter on LinkedIn announcing the company will be donating $10 million it saved in recent tax cuts to environmental programs. Regardless of how the company decides to allocate this savings, it is a big deal and will remain a constant driver of growth for the companies as well as the markets. Additionally, interest rate increases have boosted yields on corporate cash, providing for additional bottom line profits.

Keep your hands up!

Even with positive valuations and strong corporate earnings, our strategy 'the best offense is a good defense' remains as true as ever. The better we can protect the down side, the better opportunity for success over time within your portfolios. Investing in companies showing resilience, profitability and disciplined, thoughtful management help us stick to our plan, which is the ultimate goal.

"It ain't about how hard you hit; it's about how hard you can get hit. And keep moving forward. It's how much you can take, and keep moving forward, that's how winning is done."

- Rocky Balboa

Randy, Trevor and Ashley

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