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From: Ermes Monaco
Sent: January-14-19 12:29 PM
To: Ermes Monaco
Subject: VALUED CLIENT MAIL LIST: Thoughts for 2019

HollisWealth

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LOOKING FORWARD TO 2019

Source: Google Images

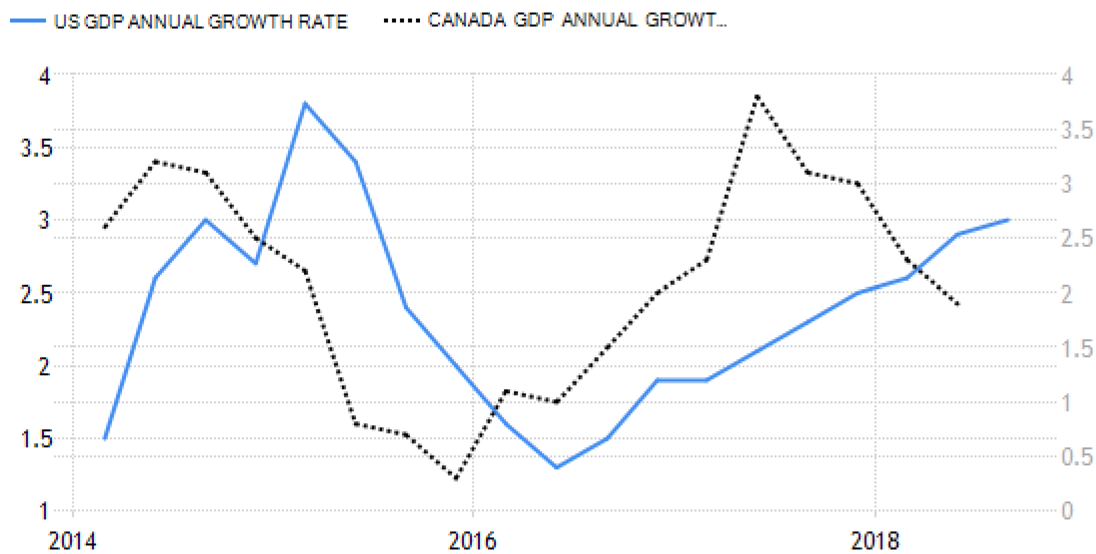
While change is inevitable, it doesn't necessarily follow the calendar. A new year in itself is not cause for things to improve or worsen. Until material circumstance occurs to trigger a change of trend, issues continue to conflict and create sustained uncertainty and volatility. But collectively, enough momentum in one direction can build to initiate a trend.

<u>Therefore, let's take a look at **some** of the key current issues with a view to identifying what direction the wind may blow in 2019.</u>

CURRENT CONDITIONS

1. GROWTH:

Despite high levels of employment, actual GDP growth remains modest and persistently in the 3% +/- range. That's partly due to the fact that a portion of the working population is effectively "under" employed with many jobs that are paying near to minimum wage. The consumer is not willing to support goods produced domestically at high wage levels while key high value jobs in new technology and other sectors go unfilled due to a lack of qualified candidates.



Source: Tradingeconomics.com

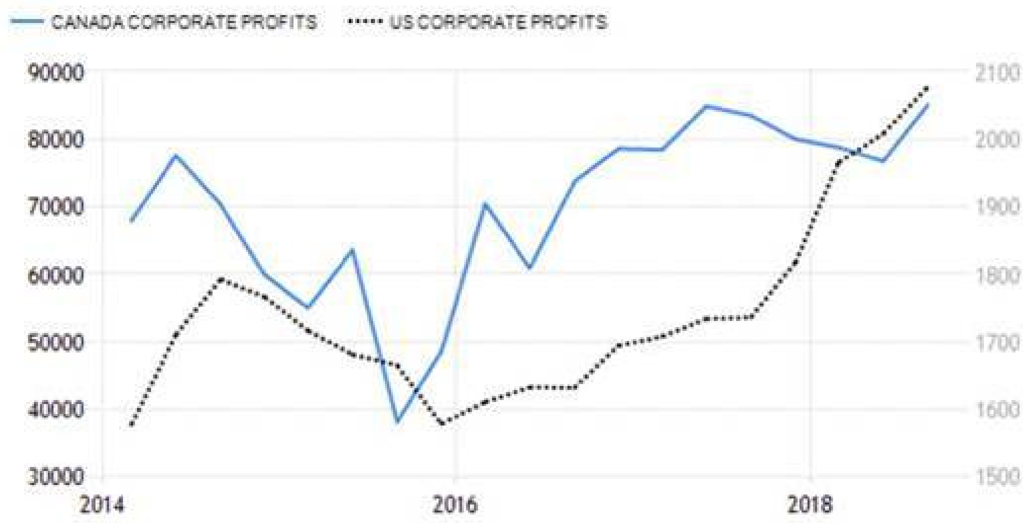
2. INFLATION:

Anticipating accelerating growth, the central banks aggressively raised their bank rates in 2018 although this trend may start to moderate with inflation abating as tariffs and other political initiatives are impacting consumer demand and confidence.

Source: Tradingeconomics.com

3. CORPORATE EARNINGS

Corporate profits demonstrated consistent performance and growth through 2018 despite the market volatility which has largely been the product of other factors. However, December's market decline was, at least, partly attributed to prudent investor concerns about the possibility of weakening earnings should the tariffs and geo-political tensions persist to trigger an earnings impact. A number of companies actively dealing with China, such as Fedex and Apple, have already alluded to this possibility.



Source: Tradingeconomics.com

4. MIXED MARKET SIGNALS

- ***U.S. dollar***

Much media attention is being paid to the current U.S. Administration which continues to promote nationalistic vs global policies as reflected by the trade tariffs and demands for heightened border security. This is creating a negative sentiment clouding foreign trade and global commerce. Yet, the $U.S. continues to maintain a predominant strength and attraction of capital relative to other currencies.

Source: Tradingeconomics.com

- ***Market Volatility***

The past year in the financial markets has seen a continuation of the effect of heightened geo-political activity creating an environment of uncertainty and investor anxiety. In particular, the effect of the current trade tariffs combined with continued central bank rate hikes have begun to create a weight on growth. These will continue into 2019. The Volatility Index (VIX) is a measure of implied stock market volatility, often referred to as the "fear index".

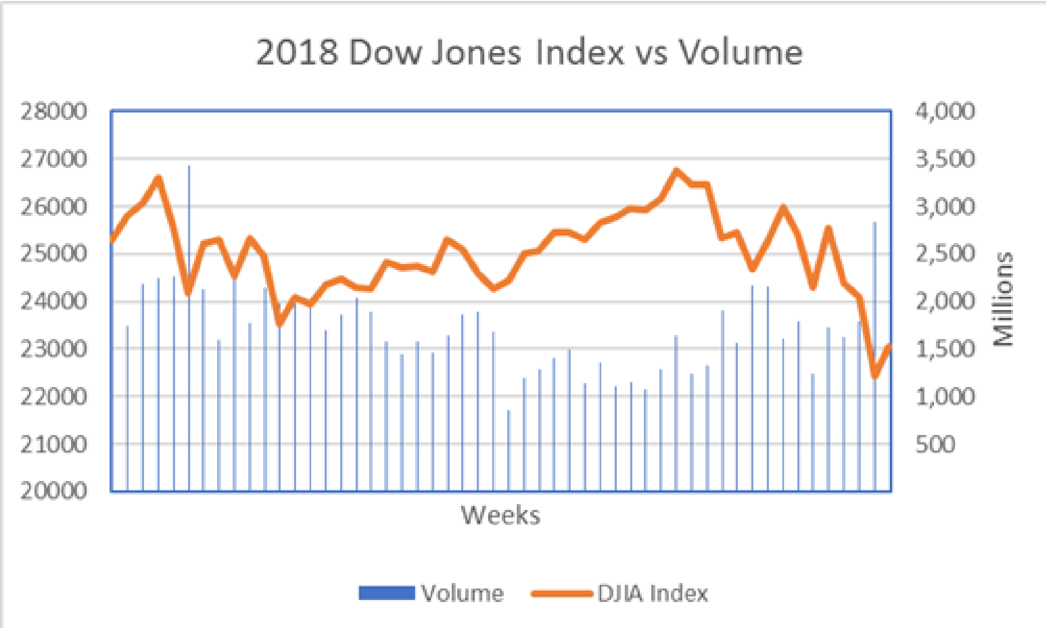
VIX last 6 months

Source: CBOE

- ***Stock Market Activity***

The financial markets underwent a negative performance in 2018 with two corrections although, on closer examination, we can also identify that both the lower and higher prices have not coincided with volumes reflecting a lack of full market participation. This indicates several behaviours:

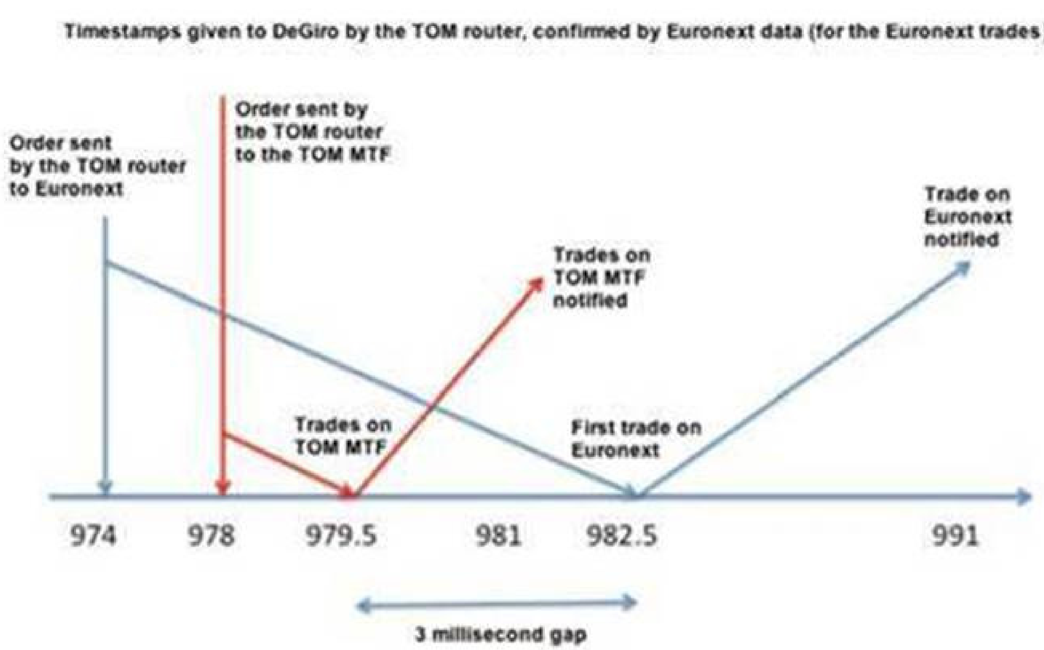
i. **Prudential investors have not been as actively engaged in the larger swings, choosing to maintain cash reserves and allowing the financial markets to drift with popular and political sentiment until core market activity stabilizes.**



Data Source: Thomson Reuters

ii. **High frequency computer program trading has been <u>amplifying and exaggerating market direction particularly during market sell-offs</u>. They are price sensitive and will trigger transactions on small volumes. As a result, they contribute to overselling and are especially useful to market manipulators and short sellers. The net effect is the setting of lower prices based on last trades not on actual organic market activity.**

Typical Program Trading time sequence pre-empting actual market trading activity producing volatility



Source: DEGIRO Research

iii. **The continued drag has also led to a situation of investor fatigue and capitulation causing the markets to be "oversold" and securities to be undervalued.**

PROSPECTS FOR 2019

Given prevailing conditions, certain outcomes have a greater likelihood of occurring:

- **The overall pace of growth will continue to be modest but positive.**
- **A continued impact of the tariffs will dampen corporate earnings.**
- **An eventual resolution of the China-US trade dispute will produce a dramatic recovery spike but not necessarily a new recovery trend.**
- **U.S. Trade tariffs may continue to be imposed despite trade agreements being achieved as occurred with the new NAFTA; this will continue to act as an indirect tax and a drag on GDP.**
- **Commodities may recover on strength as alternatives to the U.S. dollar should it enter a weakening cycle.**
- **Market performance will be sector specific.**
- **Volatility will moderate but remain above average.**

What's the takeaway?

The following takeaways carried over from the last newsletter continue to be valid with the addition of a further recommendation at this time:

- **Continue to manage expectations, avoiding the temptation to perceive short term movements as longer term trends**
- **Continue to include:**
  - **A defensive component in portfolios including a variable cash reserve**
  - **Alternative sources of returns to capital appreciation, particularly during periods of weak market performance, such as income streams and tax efficiency**
  - **Investment hedges to help offset market volatility and minimize the impact of market weakness on portfolio value**
  - **The possibility of selectively purchasing quality assets opportunistically as the financial markets travel through their cycles**

- **Continue not to rely on most mainstream media reporting as a sole source of fulsome and completely objective information given its focus on attracting the reader rather than conveying "true and plain and full disclosure".**
- **Continue to keep a plan in mind in terms of ultimate financial objectives rather than a reliance that the markets will always go up.**

PLUS: CONSIDER PRE-EMPTIVELY ADDING STRATEGIC ASSETS SUPPORTING KEY SECTORS OF ECONOMIC ACTIVITY FOR DEMONSTRATED RECOVERY WITHIN 6-12 MONTHS.

Regards

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