Dear Friends & Family,

As we enter 2020, we think it is a good exercise to reflect on what we have just experienced and to look ahead to what we might expect. This will help us in determining what strategic or tactical actions will best prepare us for whatever 2020 has in store for us as investors.

2019 has proven to be an exceptional year for equity returns, led by the S&P returning over 30%. In addition, high rates of return were achieved by almost all assets classes including non-U.S. developed markets, emerging markets, domestic and international fixed income holdings as well as certain commodities.

Against a backdrop of considerable geo-political upheaval and conflict (impeachment, Hong-Kong unrest, Middle East Tension etc.) global equities emerged from one of the worst 4th quarters in history (2018) to finish with one of the strongest advances in over 20 years.

There were really 3 significant phases of 2019's advance. January through mid-May was a straight up advance. Mid-May through October was a sideways market with a few drawdowns resulting in much higher volatility, but no real progress in price. Finally, the last 2 months of 2019 produced another low volatility environment where a "risk on" psychology drove this year's final leg straight up.

There has been a host of commentary produced to explain why this happened. Some argue that our economy continued to expand and advance, and that corporate profits and buybacks produced a higher multiple that investors were willing to pay for a dollar in earnings given the alternatives. While all these observations are true, the key questions remain, why? We believe that there was one primary driver of equity risk asset prices in 2019. The Federal Reserve and their policies.

To be clear, in 2018 the Federal Reserve in an effort to deleverage their balance sheet and "normalize" interest rates started the process of raising the overnight lending rate. In addition to raising rates 3 times, they also allowed their balance sheet to shrink by "running off" the maturing treasury and mortgage backed securities they had purchased over the previous 9 years. The plan was to allow $50 billion per month to be refinanced in the marketplace as opposed to the Federal Reserve buying them. This would allow the Feds balance sheet to shrink and be more available for the next time it was needed. Both actions were effectively tightening liquidity that the markets had grown to depend on. While the Federal Reserve was still broadcasting a strong stance, the markets reacted violently in Q4 2018 and eventually fell 19.9% from top to bottom (12/24/2018). On January 4, 2019, Chairman Powell publicly reversed course and announced an end to Quantitative Tightening which was the first shot across the bow to stem the decline in asset prices (equities). In that moment, he basically said to the investor class that there was a hard Fed backstop, and everyone should embrace risk. This led to the 5 month straight up rally in the beginning of 2019.

The turbulence started in May as discussions arose around whether the Fed would leave rates alone or cut in order to keep stimulating the economy and maintain equity prices. Clearly the White House weighed in and by July with the markets turning down, we had our answer…Time to ease again. Only this time the market did not respond as well to successive rate cuts and low and behold, at the beginning of October the Federal Reserve started a "liquidity program" that they made sure was not called Quantitative Easing. Funny though, when the Federal Reserve sponsors multiple weekly injections, and its balance sheet increases by over $400 billion, it's hard to call this anything but Quantitative Easing. If it walks like a duck and talks like a duck, it's probably a duck!

As long as the Federal Reserve and related central banks around the world continue these extraordinary measures to support asset prices and force the investor class out on the risk curve in order to achieve higher rates of return, this market climate we are experiencing can/will continue.

All of this is fine in the moment but will certainly be problematic if/when the Federal Reserve and the other main central banks around the world attempt to “normalize interest rates” and reduce their respective balance sheets. We could write a book trying to analyze the probabilities and predict the possible outcomes we could experience when this day comes, but until then it is all counter- productive speculation.

This leads us to 2020. The knee jerk reaction after such a strong year might be to sell!! We would suggest that adhering to our discipline of maintaining a thoughtful balanced approach to asset allocation within the context of your own personal circumstances will yield much better results. The economy seems to be growing at a 2%+ growth rate and corporate profits are anticipated to grow in a mid-single digit range (5-7%). Against a backdrop of a sub 2% ten-year treasury and a very accommodative Federal Reserve, equities are still fairly priced and can deliver a positive rate of return. While we anticipate volatility picking up (for many reasons, not the least of which is the upcoming election) we believe we can tactically capitalize on this volatility to our benefit.

We are sure we will all be tested at times during 2020 but are certain that maintaining our discipline and playing the “long game” will provide everyone the fortitude to ride out the inevitable ups & downs in order to meet your objectives.

Our primary role as your advisor is to be aware of any changes and to act accordingly in order to manage risk. While managing risk has become less impactful over the past decade, we are almost certain it will be paramount in the decade to come. Sleep tight, we are on this.

Continuum Team Update

Continuum Private Wealth has continued to expand its national footprint, providing comprehensive wealth planning and tactical portfolio management to clients in 16 states across the country. We are seeing a strong following to our brand and are humbled to have the opportunity to work with all of you.

The 2019 rollout of our financial planning services has been a huge success. In addition to our discretionary portfolio management, we continue to make our Goal Planning and Monitoring a pillar of our practice in 2020 and beyond.

At Continuum, we welcome the recommendation of our services to friends and loved ones. If there is anyone you feel might benefit from a conversation, we would love the opportunity to reach out to them for a consultation.

As we continue to look at ways to maintain an exceptional client experience, we want to thank all our friends and family for a wonderful 2019 and a healthy and prosperous 2020.

Best,

David, Darren, Steve & Mike