New England Capital Financial Advisors
Independent Objective Advice

New England Capital Times

New England Capital Financial Advisors, LLC
Registered Investment Adviser

January 2019
Volume 48

Special Interest Articles:

Tailwinds, Headwinds, Crosswinds and How to Keep Calm and Carry On

By Christopher W. Beale, CFP®

Many investors have been shaken by this year's volatility, especially after the long calm period with positive returns experienced prior to 2018.

March 2019 will make the 10-year anniversary of the low point in the stock market after the Great Recession. Starting from that low point, was a tremendous tailwind that worked in our favor over the last 10 years and caused the US stock market as measured by the Standard and Poor's 500 (S&P 500 Index) to rise almost 400%. Stocks are clearly not as cheap now suggesting their returns will be more modest over the next five years.

The following is a list of other tailwinds that help market performance and enhance economic growth and headwinds that hurt market performance and slow economic growth.

(Continued on page 2)

Sex, Lies & Tweets

By Christopher M. Lee, CFP®

Lies, cover-ups, payoffs and investigations - from the president's sex life all the way to his campaign's finances. Add to that, a tariff war and possible collusion with another nation effecting our election. The word impeachment has floated around as well. Investors are anxious and worried about all these uncertainties in the market and are looking for some direction.
Believe it or not, all these market headlines occurred over twenty years ago with then President, Bill Clinton. As they say, history tends to repeat itself, but let's review some of the issues that were in the news back then.

Tariff War - President Bill Clinton initially took a hardline approach on the U.S. trade deficit with Japan and prioritized extracting economic concessions from Tokyo. Originally, the Clinton Administration placed a 100 percent tariff on 13 luxury car models.

Bill Clinton's reelection campaign - The Washington Post reported in 1998 that "evidence gathered in federal surveillance intercepts has indicated that the Chinese government planned to increase China's influence in the U.S. political process in 1996." A 1998 Senate Government Affairs Committee report on the scandal found "strong circumstantial evidence" that a great deal of foreign money had illegally entered the country in an attempt to influence the 1996 election. The DNC was forced to give back more than $2.8 million in illegal or improper donations from foreign nationals. The sprawling fundraising scandal ultimately led to 22 guilty pleas on various violations of election laws.

The Lewinsky scandal - The sexual relationship took place between 1995 and 1997 and came to light in 1998. Clinton ended a televised speech in late January 1998 with the statement that he "did not have sexual relations with that woman, Miss Lewinsky". Further investigation led to charges of perjury and to the impeachment of President Clinton in 1998 by the U.S. House of Representatives.

(Continued on page 2)

Tailwinds, Headwinds, Crosswinds and How to Keep Calm and Carry On

(continued from page 1)

Tailwinds	Headwinds
Economic growth - US economic growth was at an annualized 3.5% in the 3rd quarter which is significantly higher than the approximately 2% average growth rate during the recovery since the Great Recession.	Economic growth - Most economists expect growth to slow to 2% in the US in 2019. Please note this is still a positive 2%. It may feel like a recession when we slow from a 3.5% to 2% but it's still growth.
Personal income tax cuts and low unemployment - Both have led to higher consumer confidence and consumer spending. Holiday sales and spending have increased over last year including a 19% increase in online sales.	Personal income tax cuts and low unemployment - Tax cuts provided short term benefits which will diminish through 2019. We will deal with deficits caused by the tax cuts for a much longer time. Low unemployment could lead to inflationary pressures.
Corporate tax cuts – These brought US corporate tax rates from the highest in the developed world to an average of the developed world. They effectively stopped the incentive of US companies to move operations offshore. It boosted corporate earnings which drove up stock prices.	Corporate tax cuts - Many companies use the increased earnings to buy back their shares which can increase stock prices in the short-term but doesn't promote long-term growth as well as using the earnings for research and development.
Interest rates – Rates dropped significantly during the Great Recession and remained artificially low throughout the recovery. This helped consumers and corporations by allowing them to borrow and refinance which in turn lowered monthly payments on such things such as cars, homes and buildings.	Interest rates – The Federal Reserve raised rates four times in 2018. Fed Chairman Powell predicts at least two more rate hikes in 2019. Rate hikes will cause the economy to slow.

This is by no means a complete list of tailwinds and headwinds. That being said, I do think we are late in the economic cycle, which normally means a slowing economy. There's always a risk of recession in a normal business cycle. If there is a recession in the next two years, I don't think it will be as severe as the Great Recession that typically occurs every 50-70 years.

The severity of the next recession, and when it will occur will depend upon the crosswinds. I categorized the crosswinds from US and geopolitical risks. In the US, I see a greater dysfunction in Washington. I know you're asking, "Can this even be possible?" Yes, this is possible, as the Republicans control the White House and Senate, but lost control of the House of Representatives in the mid-term elections. I see more political posturing and less of the country's business getting done.

(Continued on page 3)

Sex, Lies & Tweets

(Continued from page 1)

He was subsequently acquitted on all impeachment charges of perjury and obstruction of justice in a 21-day Senate trial.

The Whitewater controversy - This was an investigation into the real estate investments of Bill and Hillary Clinton and their associates, Jim McDougal and Susan McDougal, in the Whitewater Development Corporation. This failed business venture was incorporated in 1979 with the purpose of developing vacation properties on land along the White River near Flippin, Arkansas. David Hale, the source of criminal allegations against the Clintons, claimed in November 1993 that Bill Clinton had pressured him into providing an illegal $300,000 loan to Susan McDougal, the Clintons' partner in the Whitewater land deal.

(Continued on page 4)

"Don't let yesterday take up too much of today"

-Will Rogers: American humorist and entertainer

Tailwinds, Headwinds, Crosswinds and How to Keep Calm and Carry On

(Continued from page 2)

Another crosswind is the current trade war with China, which is already figured in the lower 2% economic growth estimates predicted by most economists. The current tariffs place a 10% tax on about 200 billion dollars of imports. If this escalates to a 25% tax on all Chinese imports (about 450 billion dollars) that could be a game changer and a catalyst for a recession.

Another political crosswind which could blow positive or negative include Brexit and Mideast stability. The United Kingdom could have a hard time if no deal is reached with the European Union; an easier time if a deal can be negotiated or neutral if the March 29, 2019 deadline is extended. As far as the Mideast, the US troop pull out from Syria is bound to cause a vacuum of instability. Future peace in the region relies on how and who fills that vacuum.

My basic takeaways from all the winds described above are:

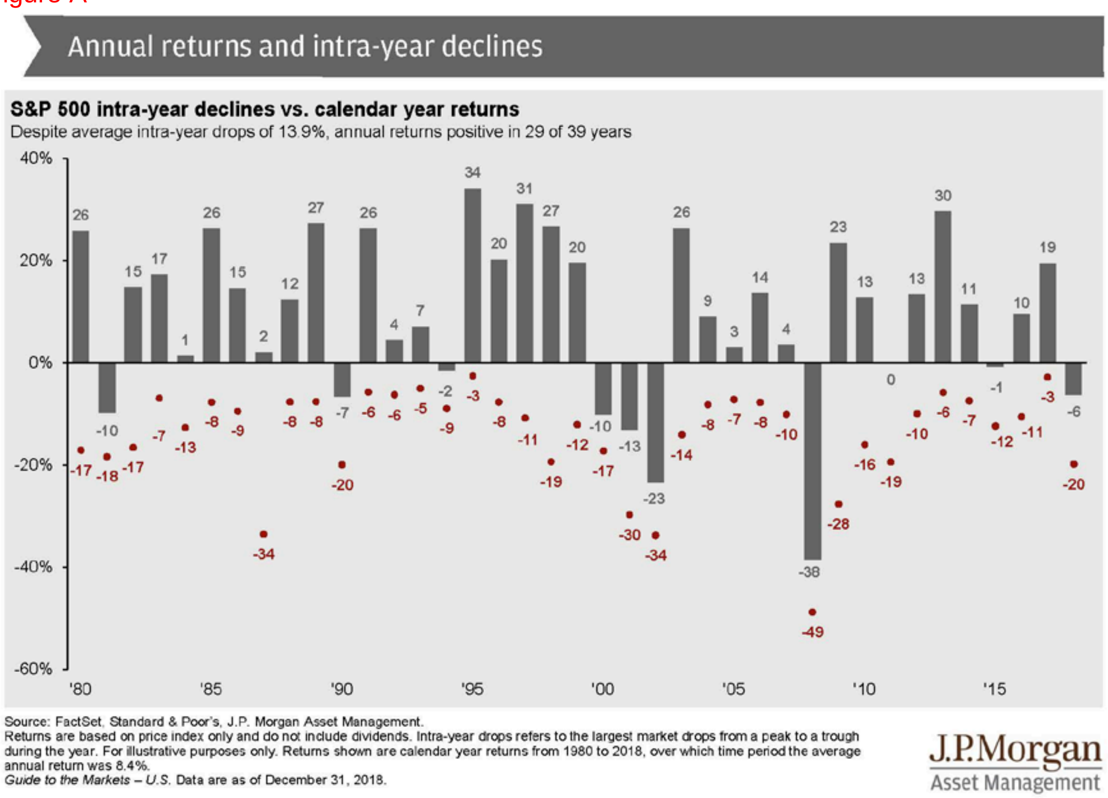
- The US economy remains strong despite late cycle concerns.
- Expect increased volatility and slower growth ahead.
- US equity returns aren't likely to be as strong as the last nine years.

So what action should you as an investor, and New England Capital as your advisor be taking now? Our first step is to make sure your asset allocation matches your time horizon, risk tolerance and return goals. While your asset allocation can and should change over time, it should remain consistent enough to accomplish your specific financial and life goals. It shouldn't be changed due to short-term market volatility.

The bigger risk than another Great Recession is what financial experts call "policy abandonment." Policy abandonment is basically when investors fail to stay with their financial plan generally at the wrong time. The Great Recession caused a significant decline which was painful and temporary. Those who abandoned their portfolio allocation and retreated to cash, at or near the bottom, permanently locked in those losses. Figure A shows long-term stock investors made money even though each of the last 20 years had intra-year declines. The past 20 years includes the two worst bear markets in my 36-year career. I believe it is too difficult to successfully time the market.

> "Be at war with your vices, at peace with your neighbors and let every new year find you a better man."
>
> -Benjamin Franklin: American author, political theorist, inventor, and Founding Father

Figure A



(Continued on page 5)

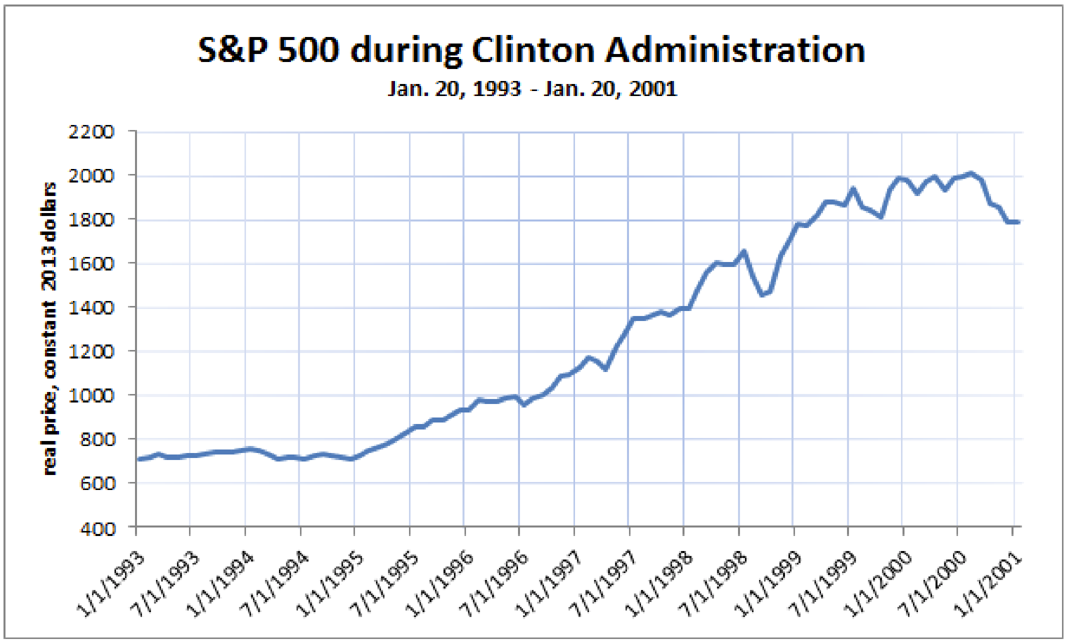
Sex, Lies & Tweets

(Continued from page 2)

Neither Bill Clinton nor Hillary were ever prosecuted, after three separate inquiries found insufficient evidence linking them with the criminal conduct of others related to the land deal.

However, history tells us that financial markets are capable of absorbing a great deal of negative news and pricing in that information accordingly (arguably, the biggest issue markets confront is uncertainty). This was extremely evident during the Clinton Administration.

One of President Clinton's most economically significant acts as president was to sign the North American Free Trade Agreement, which revitalized the North America trade block. All told, President Clinton presided over the longest peace-time economic expansion in U.S. history, and logged a budget surplus for the last three years of his presidency. Equities climbed nearly 150 percent during the Clinton Administration.



Source: https://www.cheatsheet.com/money-career/presidential-stock-market-scorecards-reagan-to-obama.html/

So, while these news headlines can be scary and cause uncertainty in the world, we are reminded that even these headlines are nothing new to the market. History tends to repeat itself. Markets go up, they go down, and historically – they go back up again.

My advice to you is to shut off this short term "noise" and focus and your long-term goals – whatever they may be. It is easy to say, "but it is different this time" and some things are. For example, Bill Clinton never used Twitter. I am also sure that there will be something "new" that will come along in the next decade that will scare a lot of us as well, something that we have not even thought about or even maybe something that has not even been created yet.

It is a normal reflex when you get fearful to go into preservation mode and want to "put all in cash". The problem when you do that is when do you get back in? By the time things settle down and the future becomes clearer, the stock market has already moved up and you missed your opportunity to get back in, which is why we have a buy and hold mentality at New England Capital.

As always, please feel free to call us when you feel uneasy or have questions on how we are managing your hard-earned money. For now, sit back, relax, and watch history repeat itself!

"Give me six hours to chop down a tree and I will spend the first four hours sharpening the axe."

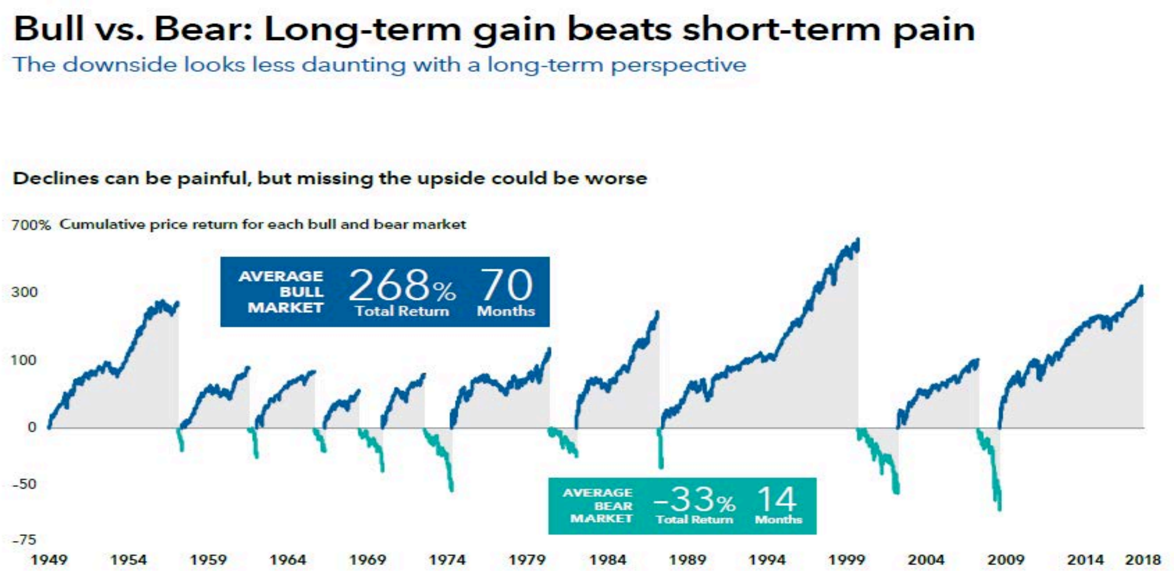
-Abraham Lincoln: 16th President of the United States

Tailwinds, Headwinds, Crosswinds and how to Keep Calm and Carry On

(Continued from page 3)

Figure B, another longer-term view shows that long-term gains beat short-term pains. Positive “bull” markets gain more and last longer than negative “bear” markets.

Figure B



If you’re still having difficulty in the volatility you’re seeing in your portfolio, let me offer one more solution. Look at your portfolio less often. Before you dismiss this idea, understand that volatility is a time-based concept. Your portfolio value literally goes up or down several times each second during every day. Of course, you don’t look at it second by second. So maybe just check it daily? Still too much? Check monthly or just quarterly. And if you only check the value every 10 years, you’ll probably find that you’re almost always up. In fact, diversified portfolios that are rebalanced annually have had only positive 10-year returns dating back to January 1926.

The key is that if we have the right investments and the right mix of investments, based on the goals you want to accomplish, according to your desired timeframe and risk tolerance, there’s really no point in checking short-term performance. Besides, isn’t that reason you hired us?! Please know that we typically don’t act on short-term 24/7 media information either. We know that’s detrimental to your wealth.

May you have a happy and healthy 2019!

“Security is mostly a superstition. It does not exist in nature, nor do the children of men as a whole experience it. Avoiding danger is no safer in the long run than outright exposure. Life is either a daring adventure or nothing.”

-Helen Keller: American Author

New England Capital News

- Congratulations! – Chris Lee was elected as the President of the Financial Planning Association of Connecticut Valley. The Financial Planning Association is the largest trade organization of Certified Financial Planners in the country.

Important Tax Document Information

- If you have a retirement account (IRA, SIMPLE, Roth, SEP) and took money out last year, the 1099-R should be mailed from your custodian (Schwab/Fidelity/National Advisors Trust) by the end of January.

- If you have a non-retirement accounts at Fidelity, Schwab or National Advisors Trust, you will not be receiving your 1099 until the third week of February.

- Please note that we cannot speak to your tax preparer or accountant regarding your accounts without your prior authorization.

- Matt and Ann will be available to assist you with any questions or issues regarding tax documents this tax season. Please email mattsczurek@newenglandcapital.com or annocone@newenglandcapital.com