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From agony to ecstasy in just three months. Last quarter's letter was a three pager. This one can be summed up in one. The first quarter of 2019 was the BEST quarter since 2009 when the market reversed course and began an epic bull run at the bottom of the financial crisis. Over the long haul, the stock market and economic growth will move in the same direction. However, in the short term, things can become significantly disconnected, and the results can be extreme. This is what we saw in the fourth quarter of 2018. As has always been my experience, the best thing to do in times like that is nothing, unless you have courage and cash to buy. Far more money is lost trying to time the market and to avoid difficult periods than to get through them and to leave things alone.

The newest topic of conversation and concern in the financial markets has been the inversion of the yield curve. Normally, if you buy a bond, you get paid more the longer you are willing to loan the issuer the money. A 30-year bond would typically pay a higher rate of interest than a 2-year bond. This is not the case right now. Currently, you get paid more for short term money than you do for long term. This is usually a sign of a coming recession and a negative economic outlook ahead. When this has occurred in the past, the inversion lasted six months on average. The bond market seems to believe we are headed into a recession, and the stock market does not. One of them is going to be right.

Recession is a normal part of the economic cycle, and we do not believe anything should be done to avoid it. Your financial plan assumes recessions will occur along the way, and your money will be invested through them. Income will still be produced and staying invested is the only way to continue to receive it. This quarter has already been forecasted to see an earnings decline. This may be a nice setup for companies to exceed expectations and surprise to the upside. It is not likely the Federal Reserve will be increasing interest rates any time soon. Low rates will likely be friendly for stock prices for the remainder of the year. If we do not see a significant slowdown, and we get a trade deal with China, this market has room to run.

Enjoy the coming warmth of summer and let us know if there is anything you need from us.

  
David J. Sculati  
President  
Accredited Investment Fiduciary®

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