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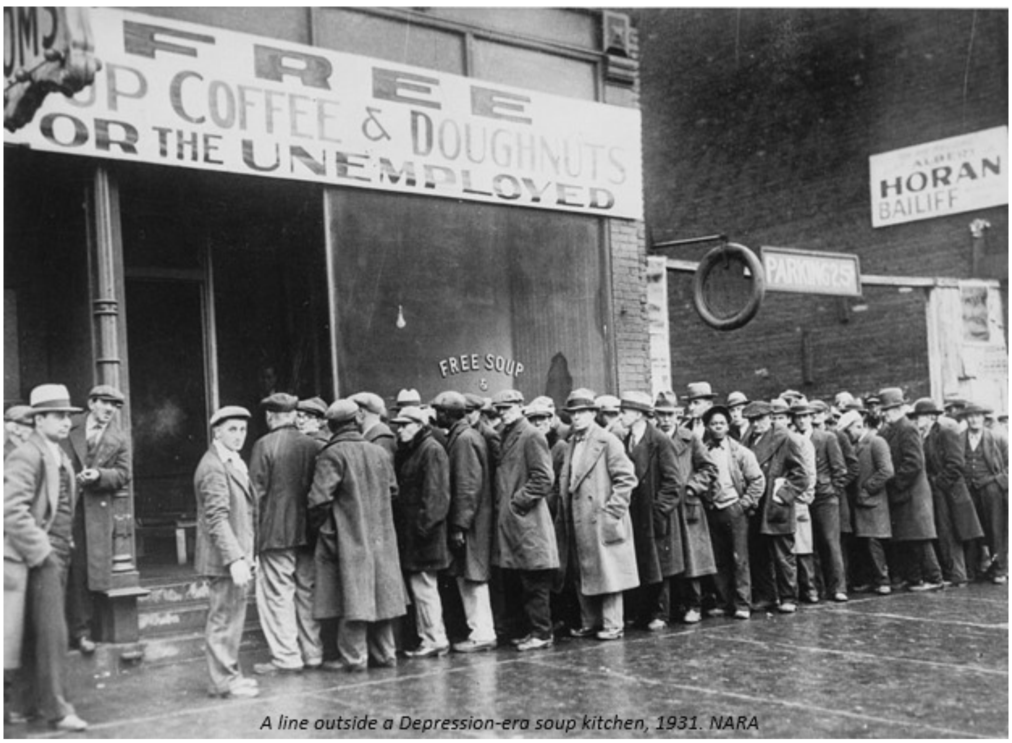
PROVIDING PEACE OF MIND

December to Remember

The good old days. A gallon of gas cost 10 cents. You could buy a house *and* a car for less than $8,000. Construction of the Empire State Building was completed, and gambling was legalized in Nevada.

The country was in the grips of "The Great Depression" and the unemployment rate exceeded 16%.

The year? It was 1931, which was also the last year that December treated investors as badly as the one just past. Eighty-six years of Decembers and not one of them as bad as 2018.



A line outside a Depression-era soup kitchen, 1931. NARA

The S&P 500 absolutely hammered investors last month, falling 9.03%, wiping out the meager gains that 2018 had mustered in the first eleven months.

Early last year we tweeted, *First 4 days of 2018, stock market up at an annualized rate of over 100%. Expectations can be cruel*. Turns out expectations *were* cruel, because the 9% drop in December caused the market to finish down over 4% for the calendar year.

Portfolio Management
Richard W. Boyer, CFP®, CFA
Laura Carley, CFP®, CFA
Cory Bloodgood, CFA

BCWM, LLC
14221 Metcalf Avenue
Suite 201
Overland Park, KS 66223

Phone: 913-685-2300
Email: info@bcwm.com

Volatility returned with a vengeance as the market moved up or down 1% -– 3% almost every day. There was one day that the Dow Jones Industrial Average rose over 1,000 points and it *still* finished down 9% for the month.

Foreign stocks didn't do as badly as domestic stocks in December, but they had been quietly/slowly selling off all year to finish down around 14%. International trade disputes, tariffs, and a rising dollar took their toll on non-U.S. companies. When trade-war fears abate and the dollar begins to decline, international stocks should do better.

While equities ended the year on a negative note, bonds eked out a (barely) positive return, thus proving the importance of diversification.

Almost every month last year, we repeated that interest rates will remain low and ultimately trend lower. This was not an easy stance to take given that the Federal Reserve publicly announced its intent to raise the Fed Funds rate several times. And it became a more difficult position as long-term interest rates began trending up.

But after hitting 3.23% on November 8th, the 10-Year Treasury Bond interest rate began declining as expected, reaching 2.55% in early January.

It has been our view all along that massive amounts of global debt will ultimately be an obstacle for robust economic growth. And as economic growth slows, so will inflation, and worries about high interest rates should subside.

The Wall Street Journal's "Year-End Review & Outlook" stated that global debt totals nearly $250 trillion, most of that being carried by the United States, China, the Eurozone, and Japan (all debt including households, corporations, and governments).

The report noted that the average consumer in the U.S. has $6,826 in credit-card debt. This is above and beyond mortgages and car loans and has been trending upward as a percentage of household income since the financial crisis of 2008. While increased debt can signal a strong economy (lenders and borrowers more comfortable with debt), ultimately, what is owed will have to be repaid. As consumers and governments eventually have to make payments on that debt, they use funds that would have been used for consumption, thereby retarding economic growth.

China is the world's largest exporter and second-largest importer (to the United States). Any slowdown in their economy affects the rest of the world. The adage "When the U.S. sneezes, the rest of the world catches a cold" now applies to China, but with a twist: "When China sneezes, the rest of the world gets sprayed." And it seems that China has recently sneezed, and Apple, Inc. needs a towel.

Last week Apple reduced its revenue expectations for the first time in sixteen years because of poor iPhone sales in China. This surprise announcement signaled to the market that the Chinese economy truly is slowing down, and it raised fears of the tangible effects of more global turmoil.

In case you haven't noticed, the U.S. Government has shut down. The official first day of the shutdown was December 22nd, and, like you, we're not sure how this affects us.

What we do know is that 800,000 federal workers with jobs in agencies such as the FDA, the EPA, and the SEC are working without pay, and there is a finite amount of time that can go on. Many of these workers are essential. (We don't want airports running without air-traffic controllers.) The longer the shutdown continues, the more people will need to find employment elsewhere.

But perhaps the silver lining from a prolonged shutdown will be that we find we don't need quite as much government as we thought we did.

Lastly but not leastly, we think we are finally nearing the end of the Bitcoin scam. It's not a viable currency. It never was a viable currency. It never will be a viable currency. However, some people did have fun fleecing others of their money for a couple of years. Whenever someone calls you with an investment idea that sounds similar to Bitcoin, RESIST THE URGE!

At BCWM, we spend our days evaluating legitimate investments that offer real return potential while decreasing overall risk. Even after a market selloff, many of those investments still appear relatively expensive. We will continue to maintain a higher-than-usual allocation to cash and bonds until stocks and the companies they represent offer better return potential.