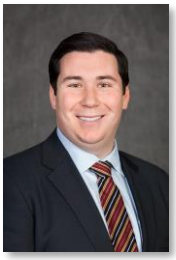
Petrovic Weaver
FINANCIAL SERVICES

Fee-only comprehensive financial planning
and investment management.

Investments, retirement, tax strategies, estate planning, corporate benefits and college planning.

January 16, 2019

Introducing our Newest CFP®… Bryson Slater, CFP®!



We're all so very proud and congratulate Bryson on passing the Certified Financial Planner™ exam in December. It is the "gold-standard" designation in our industry. The exam is comprehensive in scope and designed to assess the ability to integrate and apply a broad base of financial planning knowledge in the context of real-life financial planning situations. Bryson studied for over a year and passed with flying colors. This now brings a total of 4 CFPs on the Petrovic Weaver staff!

Holiday Party with Santa!

We thank everyone who came to our annual holiday party with Santa and offer condolences for those who didn't attend☹

The good food, drink and goodie bags disappeared quickly. **Santa was a huge hit**. We encouraged everyone to have their picture taken – a little arm twisting was needed in a few cases, but once settled on Santa's lap, much joy and many smiles appeared.

If you live in the KC area, please attend our 2019 party. You can't beat old-fashioned fun and togetherness!

Goodbye and Good Riddance to 2018. Hello 2019! – Alex III, CFP®

First, I would like to wish you and your family a Happy New Year! I hope 2019 brings you and your loved ones' happiness, joy and prosperity! Secondly, we at PWFS are grateful to have you as such wonderful clients. Thank you for allowing us to serve you over the years and placing your trust in us.

2018 Review:

- After two very strong years of stock returns in 2016 and 2017, we anticipated muted stock returns at best in 2018. However, the pace of stock slump in the 4th quarter of last year caught many professionals off guard, and even though we have been talking with you about preparing for a bear market, we were surprised at the pace of the stock selloff.
  - From my 1Q 2018 newsletter article: "The lack of meaningful stock market corrections in the U.S. since February 2016 is a bit concerning. Since then we have barely had a correction of 5%... This does not mean the next downturn will lead us right into in a bear market, but we do think some bad news (or just not as good as 2016/2017) could push stocks down 10-20%."

- Overall, the U.S. and global economies were in good shape in 2018, but very strong U.S. corporate earnings were not enough to help push U.S. stocks higher for the year. Unfortunately, there were few safe corners of the financial markets in 2018. Broadly speaking, both stocks and bonds underperformed. However, our bonds did exactly what we wanted when stocks were down big; bonds did not lose money.
- International stocks, the best geographic area for stocks in 2017, were the worst in 2018.
- Some major U.S. and international stock indexes landed in non-recessionary bear-market territory (down 20% or more from their peaks). Ed Clissold, chief U.S. strategist at Ned Davis Research, recently said that as far as he can tell, stocks appear to be in a "non-recessionary bear market." Historically on average, non-recessionary bear markets have lasted 213 days, down 25%. "Bear markets that have <u>not overlapped</u> with recessions have been <u>shorter and less severe</u> than bear markets that have," Clissold said.
- So why was there a disconnect between the negative stock market and positive global economy and corporate profits? As we have discussed with you at your recent review meetings, there are times when the economy and financial markets diverge, and the main reason for this in 2018 is because economic data tells us about the <u>past,</u> and the financial markets are always looking to the <u>future</u>. So right now, the financial markets are trying to "sniff out" if there is a U.S. and/or global recession in the very near future, but the data does not currently indicate we are in a recession.

2019 Outlook:

- For over a year, we have been speaking with clients about how we think 1) the probabilities of a recession and/or bear market are increasing, 2) life for stocks will most likely get harder due to rising interest rates and slowing economic and corporate earnings growth, and 3) geopolitical risks have risen, which only make life harder for stocks.
- Since no person can predict the future, we have to deal with probabilities when it comes to investing. In our opinion, there is still a good probability that 1) the U.S. and the world will <u>not</u> have a recession in 2019 and 2) global stock returns can still be <u>positive</u>. Even though a recession is not imminent (see chart below), most analysts expect a choppy ride for stocks, as we still think we are in the latter stages of this economic cycle and bull market.
- However, like in 2015 when the global stock market wobbled on global growth and rising interest rate concerns, only to turnaround and yield great stocks returns in 2016 and 2017, we believe we are at an inflection point that only economic data will eventually tell us in which direction we are heading.
- In the near-term, stocks can still deliver positive returns, but as we have previously cautioned, be prepared for the opposite. And remember, a normal bear market historically lasts between 12-24 months. Over the long-term, we still expect positive stock returns.

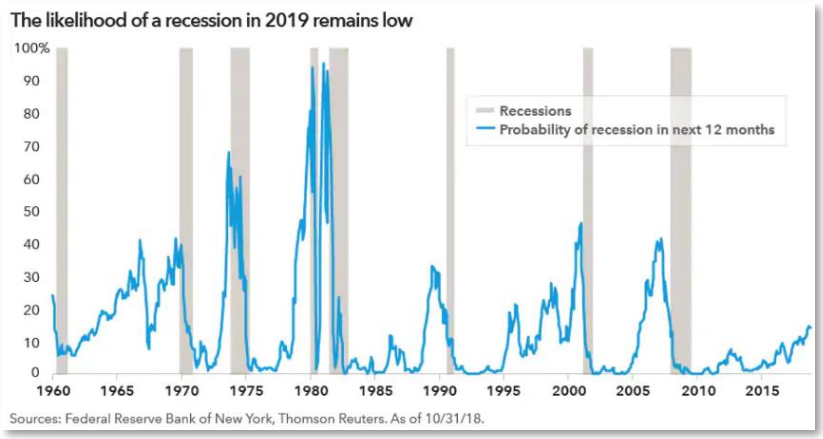
<u>The Negatives:</u>

- Slower U.S. and global growth: "The transition to a slower, more sustainable pace of growth should not be a big surprise, but it may prove to be a challenging environment for investors. Such transitions are rarely smooth. The economic expansion should continue through 2019, but the road may be a bit bumpy," says RJ Chief Economist Scott Brown.
- U.S. vs China: Although there are hopes that a trade deal is imminent, the U.S.-China conflict extends beyond trade to areas such as investment, technology, intellectual property rights, market access and industry policy. Hence, the path to an eventual truce between the two economic superpowers is likely to be bumpy and prolonged. Vanguard recently estimated an escalated, major trade war will shave 0.5% - 1% off global growth. Therefore, not enough to cause a recession by itself, but it could certainly be a contributing factor.
- Politics: Currently, global political uncertainty (e.g. U.S. government shutdown, trade war, Brexit, the Mueller investigation, Italy's budget standoff with the EU, U.S. vs. North Korea, etc.) is weighing down financial markets.

<u>The Positives:</u>

- Slowing economic growth, both in the U.S. and globally, is the most likely scenario. Economic growth in the U.S. for 2019 is expected to be somewhere between 2-2.5%. Therefore, most likely no recession in 2019.

- U.S. corporate earnings growth, along with low 2% U.S. inflation, are still widely expected. U.S. corporate earnings growth, for S&P 500 companies, is forecasted to decelerate from about 23% in 2018 to between 5-9% in 2019.
- The health of the U.S. banking sector appears relatively sound.
- The Federal Reserve raised interest rates four times in 2018, ending up at 2.5%. Currently, the expectations are that the Fed will raise rates between 0 to 2 times in 2019. If the Fed stops increasing rates, this would likely boost stock returns. Plus, historically low interest rates and inflation indicate the U.S. global economies are not overheating.



Facing Your Fear – How Bad Is A Bear Market Really?
Sandi Weaver, CPA, CFP®, CFA®

Thanks to the last three months, we've seen our account statements drop and roll. We all know what a correction feels like now – seeing stocks drop 10%+. We've seen large U.S. stocks touch the bear market line, where stocks drop 20%+. As long-term investors, we know we've never had a business cycle without a bear market. I want us to face our fears and examine what a bear market really looks like. Sooner or later, we'll see one.

How long do we fall and how far? Here's what Raymond James' research says. Over the long term we've had 16 bear markets where stocks have been down 20%+. Of those 16 swoons, 9 of those were later deemed to be recessions. 7 of those 16 were non-recessionary bear markets. What's the difference?

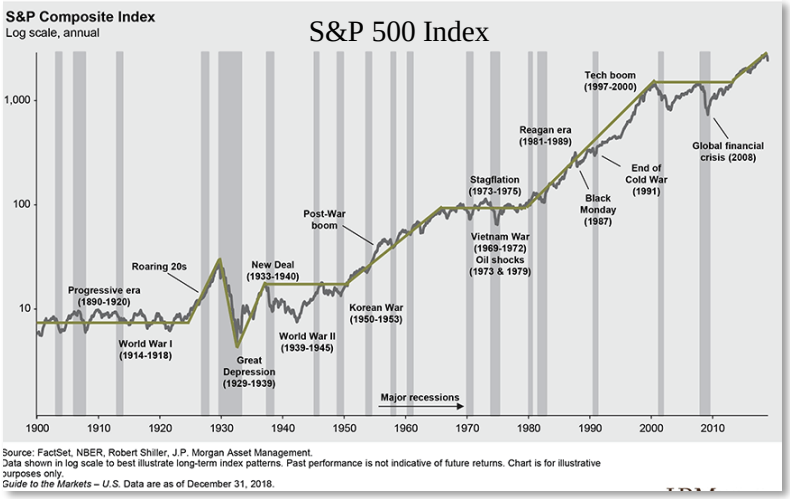
If we tumble into a non-recessionary bear market, then past history says stocks fall 25% over 12 months. Price/earnings multiples shrink more than corporate earnings decline, even though both cause stock prices to fall. If the economy worsens and we tip further into a recession, then the fall averages 33% (so 8% more) that year.

JPMorgan Asset Management's research says in the last 12 years we've had 13 bear markets, 11 were recessions with declining GDP growth. 2 were non-recessionary bear markets. Stocks averaged a 30% fall in each category over 13-15 months.

What triggers these bear markets? JPMorgan says 3 factors:

Commodity spikes (Think of a jump in oil prices choking off the economy.)
An aggressive Fed (The Federal Reserve raises interest rates too quickly and the economy tanks.)
Extreme valuations (Investors have bid up stocks to unrealistically high prices.)

They say commodity spikes caused 5 of the 13, an aggressive Fed caused 5, and extreme valuations set up 6.



Vanguard's analysis says there have been 85 recessions since 1990, in the U.S. but also counting each one in other countries. They define the triggers as:

Inflation
External pressures (?)
Financial imbalance (Think of our financial system's 2008 real estate debacle.)
Commodity price crashes (Think of oil dropping from $150 per barrel to $50.)

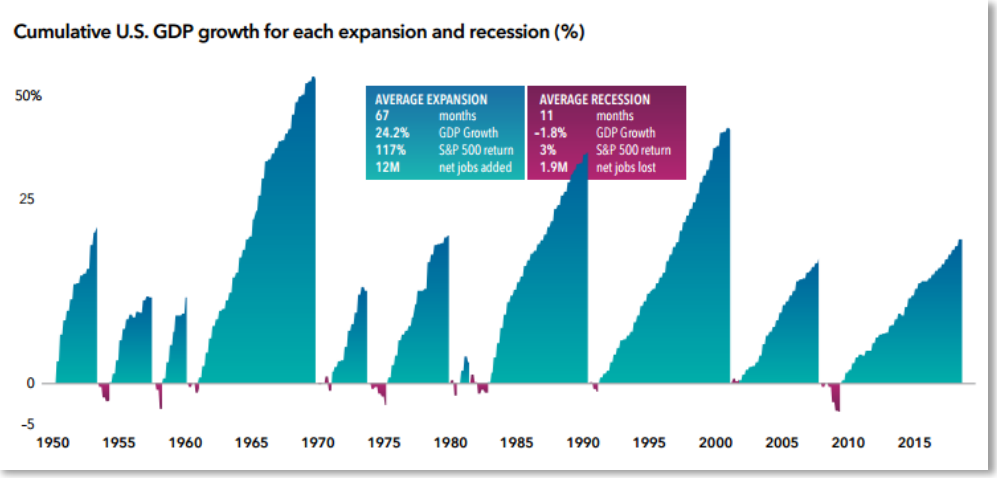
Inflation triggered 19 of their 85, financial imbalances started 33, external pressures triggered 19, commodity price crashes caused 4, and "other" caused 10.

How long does it take stocks to recoup? Based on Wealthfront's analysis, the recovery time to get back to breakeven is 22 months. So, when we're in a bear market, on average, an all-stock investment account drops for 1 year, then takes up to 2 years to get back to break even.

What's worse case? Averages are just that. Wealthfront's data says that the softest bear market dropped only 19%, not 30%. They say the hardest hitting bear dropped stocks 56%. (Yes, that was 2008.) Although the average time stocks dropped is 1 year, that drop has sometimes occurred quickly - over 2 months - but sometimes longer - 2.5 years. Recovery times? Sometimes that loss has been recouped in 3 months; another time it took 6 years to recoup (in 2002). So, a bear market could be almost painless, or it could also be a miserable time.

CliffNotes Summary

We've been saying in your meetings that a downturn in the business cycle may be coming in the next 1-4 years. We may see a bear market. When that happens, on average stocks will drop 30% over a year; then stocks will likely take 2 years to get back to break even. There are wide variances in those averages.



Is there any good news in this article?

Please remember we've been homing in on stocks only. These are stock indexes pitching down 20%+. We diversify your portfolios – by purchasing different kinds of investments in different geographic areas. That mitigates your losses. You own a mix of lower-risk bonds and higher-risk stocks just for this purpose. Your portfolio's recovery time should be quicker.

As long-term investors, the 2-3 years in a bear market is a small piece of your timeline. Higher growth prevails outside of those periods. Capital Group's research pegs the average recession at 11 months, and the average expansion? That's 67 months.

Market Recap – Jim Stoutenborough, CFP®

Let's do the numbers:

- In December the U.S. stock market dropped for most of the month. In December - the markets were in full Scrooge mode with the S&P 500 down (-9%) and the Russell 2000 down (-11%) loss. International markets brought nothing to the holiday party losing (-5%) but bonds provided some holiday cheer and were up 1.8%.

- The final numbers for all of 2018 - Large U.S. companies, the S&P 500 Index, were down (-4%) and the Russell 2000 Index (small U.S. companies), provided a downtrodden (-12%) for the year. The international index, the MSCI World ex US, lagged the US indexes down (-14%). The Barclays U.S. Aggregate Bond Index (quality U.S. corporate and gov't bonds) rode their December rally to end the year flat at 0%.

Asset Class	Index/Category	2018	2017	2016
Cash and cash alternatives	Average 1-yr CD Rate	0.9%**	0.3%*	0.3%**
U.S. Bonds	Barclays US Aggregate Bond Index	0%	4%	3%
U.S. Large Companies	S&P 500 Index	-4%	22%	12%
U.S Small Companies	Russell 2000 Index	-12%	15%	21%
International Markets	MSCI EAFE NR USD	-14%	24%	1%

*Numbers come from Morningstar.com, *FDIC.gov and **Bankrate.com*

Afraid of Losing your Identity? – Sandi Weaver, CPA, CFP®, CFA®

Should you freeze your accounts at the three credit reporting bureaus? We recommend that, and I did so early 2018. I was caught in the big Equifax hack then, and in hacks preceding that at 4 other companies. We know from some clients here that it's a huge headache to clean up.

It's easy to go on the websites at all 3 bureaus (Equifax, Experian, Transunion) and freeze your records – at no charge.

It's easy to un-freeze your records. I did that mid-2018 to get pre-approved for a mortgage. That's the only reason I've encountered where I was asked to open up my records. I've since "re-freezed". It takes 10 minutes – freeze all 3 or unfreeze all 3.

Freezing prevents hackers from opening up new credit cards in my name and running up charges. What it doesn't do is prevent hackers from running through charges on my current credit card or debit card.

For that, I reconcile monthly on Quicken. I had 2 fraudulent charges in 2018. I called Visa who sent out a new card and reversed charges.

Here's a Wall Street Journal podcast on it: Hackers Nab Your Data in a Few Minutes for a Few Bucks https://traffic.megaphone.fm/WSJ2328875104.mp3.

When your identity gets hacked, it's not just the potential loss of your money, it's also the time you spend to get it cleared up.

Estate Planning 101 - Protect What you Cherish

Sandi presented estate planning information to congregants at Shawnee Mission Unitarian Church on the past two Sundays. One workshop focused on simple estates with a do-it-yourself approach and the second workshop addressed more complicated assets, when to use a trust, and more. Over 40 people attended. Our survey indicated that folks found the workshop very informative and useful. **If know of a group that might profit from this workshop**, please contact Marilyn@PetrovicWeaverFinancial.com.

Is it your New Year's Resolution to Retire?

Read Sandi Weaver's article that appeared in the KC Star on December 27th:
https://www.kansascity.com/news/local/community/joco-913/article223637240.html

(If you're reading a paper copy of our newsletter, you can find her article posted on our website blog.)

Inside & Outside of PWFS

Alex Petrovic III - The fourth quarter was very busy but enjoyable! My wife Dasha and I attended three weddings. A client of ours recently married in KC. One of my cousins recently wed in a beautiful ceremony at Powell Gardens. Finally, another cousin was married on a mountain top right outside Yosemite National Park in California.

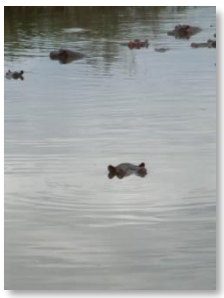
For the Yosemite wedding, Dasha and I decided to leave Benny in KC with my mother and extend our stay since neither of us had ever visited Yosemite. On our first day, about 8 family members, visiting from Los Angeles, Washington D.C., Virginia and KC, hiked to Vernal Falls. Once at the top, four of us split off and decided to hike further up to Nevada Falls. The roundtrip hike from the trail head to Nevada Falls was about 5.5 miles and a 2,000 elevation feet gain. The four of us made it down just before dusk, just in time! Another day Dasha and I took a 2-hour guided bus tour of the Yosemite Valley floor and then drove up to Glacier Point for an amazing panoramic view of the valley at sunset. I must admit I knew almost nothing about Yosemite and its splendor. Wow, what spectacular beauty it possesses! Both Dasha and I would love to return one day when Benny is older.

My wife, Dasha, finished her first year of business school at Rockhurst! Her last class in 2018 was finance. I tried my best to tutor her occasionally. 😊 So far it is her least favorite class! Hah!!

On December 8th, our son, Benny, turned 3 years old. We invited family over to our house to celebrate. He received so many gifts, we decided to hold off on giving him our presents until Christmas. Benny loves singing Elmo songs, riding his tricycle and scooter, and playing with his *Peppa the Pig* playhouse that my mother gave him for his birthday. We are enjoying every minute of it, except when the occasional terrible threes strike! 😊

Lastly, celebrating Thanksgiving and Christmas without my father was difficult, but seeing family members visiting from out of town made the holidays enjoyable. Plus, this year my brother, John, hosted the annual Petrovic family Christmas Eve party. Historically, Grandpa Alex hosted for decades until his passing, and then my father took over. I'm glad my brother is helping continue our family traditions!

Sandi Weaver – I took my first 2-week vacation (yeah!) in the fall – to South Africa. I and 5 others in the group biked Chapman's Peak, a scenic ocean drive north of Cape Town. Although it's only 5.5 miles, it's darn near straight up! The other travelers were smarter and took two vans over the mountain. We saw awesome wildlife on 3 different game reserves. Don't you love these hippos? They hung out in the pond by our site every day.



Jim Stoutenborough - I am not a winter person and am of the firm belief that the four seasons are overrated – I like heat. I am now fully in my "just get through January" mind set – so at the end of the day I just want to get home and minimize any time in the elements. I always think if can get to February, with the month being only 28 days, it is at least daylight on the drive home from the office and spring training starting in mid-February – plus, there is always a couple of warm (above 60) teaser days in February - then I can make it to March where at the end of March - baseball season starts. I have a theory that if we made all the winter months 28 days then winter would be shorter, but I have been told that there are holes in that theory.

Marsy Gordon - As usual, the Holidays came and went, whether or not I was ready for them. We had good visits with family – some were in town for Thanksgiving, and others were here for Christmas. It was good to see many of our clients at the PWFS Holiday Party in December, and we missed the rest of you. With all of you, I am looking forward to good happenings in 2019.

Bryson Slater - I have been keeping very busy throughout the holiday season. I have made many trips back to St. Joseph, my hometown, to visit friends and family. On top of that, I been diligently following the Chiefs' warpath to the Super Bowl (fingers crossed). They will be playing in their first ever home AFC Championship game! Incredible! I am also looking forward to a couple trips I have in the next couple months. One for a leisurely weekend in the warm Phoenix, Arizona and another to Crested Butte, Colorado for some skiing. They cannot get here soon enough!

Ann Kloster - The holidays were again a time with family and friends, where I am reminded of my many blessings. Now, I am just holding on until March. And the coming of Spring.

Marilyn Brohm – Although it was a great holiday season with my loving family and friends, one of my highlights was planning and enjoying our annual PWFS Holiday Party. There were lots of 'tasks' to do in order to pull it off, but I really enjoyed watching the Chiefs in my family room and setting up an assembly line to fill the 'goodie bags' for our guests. If some of your bags didn't have the Hershey's kisses, so sorry, I nibbled as I worked. We hope that everyone had a good time and that more of you in the area will come to our next party – the more the merrier!

Jeannine Shaffer– The days leading up to Christmas were filled with the usual panic and fear I have every year of not having the decorating, baking, shopping and wrapping done. No one, other than me would know if it wasn't all done, so we had a wonderful fun holiday with our family. We all enjoyed the reactions and excitement of our 14-month old granddaughter during the day.

For the New Year, we have resolved to do things simpler this year and to tackle our to-do list one task at a time. We are starting in my husband's home office and workroom in the basement and working our way to the attic. We are hoping this will make us feel more in control and provide us with a positive direction for the changes that have happened in our life this past year.

I'll let you know next quarter how it's going. Hope you all had a great Holiday, too, and a Happy New Year.

Alex Petrovic III, CFP®
President

Sandi Weaver, CPA, CFP®, CFA®
Senior Advisor