January 17, 2020

Dear Valued Investor:

What a difference a year makes. A little over one year ago the stock market was plunging and came perilously close to ending what has become the longest bull market ever recorded. In December 2018, dropping stocks were suggesting an increased risk that a recession, or market crisis, might be on the horizon. Confidence in investing fundamentals coupled with attractive stock valuations helped keep a focus on long-term investing objectives in the face of short-term volatility.

One year later with 20/20 hindsight, what appeared to be a bullish forecast for stocks may have been too conservative, and now we're asking if stocks have come too far, too fast. December 2019's stock market environment has been in some ways the opposite of December 2018's. After a strong rally that has lifted stock valuations, the question now is whether investing fundamentals can continue to support 2019's gains throughout 2020.

Stock market fundamentals have improved significantly over the past year. We've received clarity on the biggest market uncertainties: U.S.-China trade relations, the Federal Reserve (Fed) pivoting from rate hikes to rate cuts, and the United Kingdom's exit from the European Union (Brexit). We've also seen a leadership transition at the European Central Bank and more production cuts by Saudi Arabia-led OPEC to help stabilize oil prices. These actions plus reduced trade tensions in other key international economies could be viewed as evidence that economic growth outside the United States has stabilized and may even be starting to pick up a bit, although it is not assured.

Investors have priced in a lot of this good news, and it's possible that some potential 2020 gains have been pulled forward into late 2019. Stocks may need to be repriced over the next several months as investors wait for the economy and corporations to deliver against pricing, and that wait could be uncomfortable at times. Corporate earnings growth will likely be the driver of stock market gains, but that still may depend on more progress in trade negotiations. Negotiations on "phase two" of the U.S.-China trade talks could become bumpy, and that could lead to additional turbulence in the stock markets. Inflation could also pick up and trigger renewed fears of Fed rate hikes, although a slight increase in inflation is a sign of a healthy economy. Fallout from the impeachment, international economic data in decline, and the potential for a highly charged U.S. election also could lead to increased market uncertainty this year.

While the strong market performance of 2019 may limit the magnitude of potential market advances in 2020, stock market gains are still possible this year. A Fed committed to keeping interest rates at current levels and progress on trade can improve prospects for business investment and productivity growth.

Best wishes for a healthy and prosperous year ahead and please contact me if you have any questions.

Sincerely,
*John*

John P. Napolitano, CFP®, CPA, PFS, MST
Chairman & CEO

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The use of Stocks and Markets herein are referencing corresponding indexes, unless otherwise noted. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

All data is provided as of December 31, 2019.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

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