**MONTHLY UPDATE AND COMMENTARY**
**NOVEMBER 2018**

Dear Investors,

As the year comes to a close, we are finalizing our 2019 outlook while reflecting on what happened in 2018. After starting off with a bang, two ten percent corrections since January have raised levels of fear and anxiety. The economic backdrop and earnings remain strong, but the uncertainty of, “Is this as good as it gets?” has crept in. Theories abound as to why the market has corrected violently and quickly twice already this year, but we are focused on two. The first and more benign is that algorithmic program trading has been able to take advantage of market-high inflection points coupled with low volume to push the market below technical break points. This makes sense given the fact that this type of trading now accounts for more than 65 percent of volume, while the fundamental underpinnings of the economy and earnings remain strong. Under this scenario, the current selloff is a buying opportunity. The second theory packs a little more punch and revolves around late cycle behavior and the market’s anticipation of a recession. If the market is telegraphing a downturn, then the current correction could expand further. Bull markets don’t die of old age, but this one may be anticipating an overshoot by the Fed combined with a more significant slowdown in China. This could pressure GDP enough to create a negative feedback loop that forces a consumer retrenchment on top of reduced exports.

If you dig a little deeper into the S&P 500 industry groups, the validity of the second theory is even more apparent. Over the last six weeks, everything cyclical has corrected significantly and moved toward new lows while the defensive areas have outperformed by a wide margin. How this settles out in the next 6-8 weeks will drive our expectations for 2019. The market could continue to correct and the Fed could simultaneously start to back off its aggressive policy stance. This could lead to a significant bounce in early 2019 because of valuation and accommodation. More likely, however, the Fed will be slow to adjust and will wait until economic indicators turn sour. This could lead to further pressure during the first half of 2019 with the back half more positive as the Fed attempts to engineer a soft landing.

In our current strategic asset allocation we remain overweight large cap equities and are looking at gradually leaning into long duration Treasuries to help protect against a possible negative growth shock. Please call or email me with any questions or comments.

Separately, our Richmond Wealth Management office is moving to new locations. On December 1, 2018, Ellen Spong and Tom O’Neil will relocate to 1051 E. Cary Street, Suite 1200, Richmond, VA 23219. On December 14, 2018, Stuart Blain, Jess Ellington, Jack Catlett, Barbara Dickinson, Sharon Barcalow and Josh Cohen will relocate to 4355 Innslake Drive, Glen Allen, VA 23060. We look forward to serving you at our new locations!

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