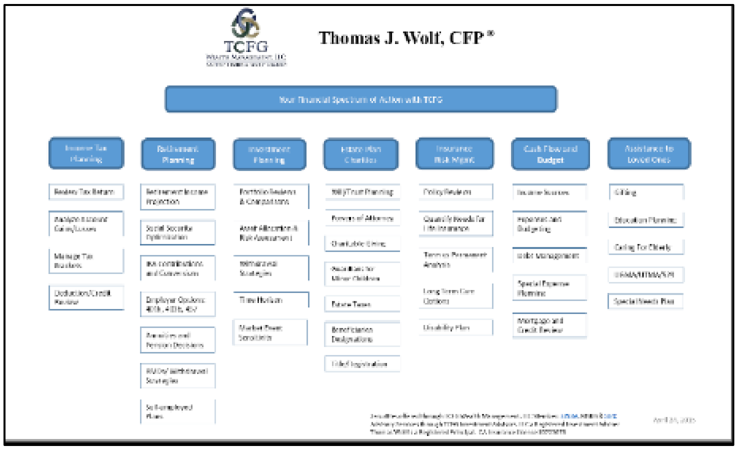
IN MY OPINION…

Quarterly Comments from Thomas J. Wolf

January 10, 2019



You can "Like me" on Facebook and "Connect" with me on LinkedIn at Thomas J. Wolf, CFP®.

For those of you not using these social media services, you can go directly to my website at www.iplan4u.com

For those of you we mail Monthly Updates to, we will include the most relevant of those items with the update.

OUR RELATIONSHIP WITH YOU:

Market Event Sensitivity/Investment Planning:

The last few months of 2018 were exciting if you were watching the financial news media. The trouble was that depending on the day and sometimes the hour you were watching, you may have been given an impression of the markets that ranged from "just a little volatility" to "is this the beginning of the end?"

What is "volatility"? I would begin by describing the volatility of something by the range of the price/value chart of any asset/account during a certain interval of time. For example, if a stock moves from $10 per share at the beginning of 2018 to $15 per share by July of 2018 and then goes back down to $9 per share by the end of the year that would represent a certain level of price/value volatility. But if that same price movement occurred in one MONTH instead of one YEAR, that would imply a much increased level of volatility, which as a practical matter tends to equate to a higher level of "fear" and risk. It is not only the time frame that impacts the fear level. A larger price change for the stock, especially on the downside, also may amplify the "fear". In addition, the TV or radio commentator and the news media headlines often amplify the fear level. After all, "calming" headlines don't cause you to read the article!.

Stated simply, our "investment planning" function is driven by the level of investment returns we use to create a retirement income projection that projects adequate assets and income being available to the target age of 95 for the youngest person covered by the plan or "get to age 95 without running out of money!" To run that projection we assume a reasonably achievable investment rate of return over that time frame compared to a long-term average rate of inflation which drives up expenses over time. I think we all appreciate the fact that "risk free" rates of returns (T-Bills, CDs, annuity rates, etc.) are in the 2-2.5% range these days. It follows then that there is a "gap" or "shortfall" between risk free earnings rates and the rates of return necessary to outperform the effects of inflation and allow for some growth of our investments or higher income from them.

So, if we need to achieve higher returns than the "risk free" assets provide, that leads us to look to assets that force us to accept some level of risk, i.e. some "volatility". A time-tested strategy to reduce overall volatility (and the resultant "fear" level) is called "dollar-cost-averaging" which is what you do when you tell your employer to systematically fund your 401k plan from your weekly paycheck. This is particularly effective during the years you are accumulating funds. Unfortunately, it does not always follow the reverse, i.e. blindly **withdrawing** on a systematic basis, will be as effective. Once funds have been accumulated and there are no new contributions or once the accumulated total is subject to too much volatility then I believe we need to resort to another time-tested strategy: buy low, sell high. Specifically, we attempt to execute this strategy by having a "base-line" mix, or "model", for a client account. We test this baseline model using the historical results of the blend of these specific investments looking for a reasonable rate of return while keeping the risk of unacceptable downturns to a minimum.

And **FINALLY** I am **GETTING TO THE POINT!** Market events are not "predictable". If they were entirely predictable, profitable investing would be a "slam dunk"! So last quarter, October through December, the stock market as measured by the S&P500 was 2924 on October 1, falling to 2346 down 19% on Christmas Eve, closing at 2506 on 12/31 up almost 7% from Christmas Eve, and as of 1/10/19 closed at 2596 up about 3.5% since year-end. Just for the sake of completeness, the S&P500 is still down about 12% from its all-time high in August 2018. The rebound from the December low resulted in a drop in the percentage of investors who are pessimistic about stocks 6 months from now to drop from a level near 42% down to only 29% (AAII Investor Sentiment Survey 1/9/2019). So they got much more optimistic about stocks which, unfortunately, history of this survey tends to suggest we then should be more pessimistic!

So we adjusted our stock market exposure for most accounts during 2018 in early February and in early November. We are prepared to consider another adjustment to "buy low" and adjusting our model to include more stock market assets. (See the chart later in this bulletin)

Tax Matters:

This quarter is generally the busiest time for clients preparing for the preparation of their tax returns. We often assist in completing tax preparer data forms, and in just making sure that all relevant 1099 income reporting documents are available and FINAL. Over the last several years we have experienced delays in the final issuance of 1099s from NFS/TCFG which actually led the IRS to extend the official deadline for producing them. With the expansion of investment products, the international nature of investments, complications created by classification of investment income and many other factors, account custodians such as NFS found themselves subject to taxable income revisions produced by the various investments held within our accounts. If we look at your account information at NFS we often see an initial 1099 posted and labeled "Preliminary". We will see this prior to you receiving any 1099 in the mail. We will also see the one labeled "Final" before you get yours in the mail. We know many of you with "simple" tax returns would like to get yours filed early BUT we don't advise using preliminary numbers due to the risk of having to amend your return if the final numbers are too different.

While we are on the subject of tax returns, don't forget to send us a copy of your 2018 tax return once it is filed. We will be using it throughout the year in order to advise you on the need for additional withholding, the use of Qualified Charitable Deductions from your IRA account, bunching up itemized deductions or spreading out income, and other strategies that any new tax changes may suggest.

Please contact the office to schedule a time for a review or to update an existing financial plan that may be out of date.

CURRENT INVESTMENT THOUGHTS:

As I have been doing in my bulletins, I updated the chart below to demonstrate the recent volatility and trend in the stock market as measured by the S&P100 index. As shown in prior newsletters, the primary purpose of this graph is to show the degree of participation of stocks within the index and therefore the under-lying strength of current market behavior. The decay in the participation of the significant majority of stocks in the index is very evident at the end of the graph.

The lack of participation during December was apparent and is what has been causing us to get prepared for an additional increase in our allocation to stocks. The last time we saw this participation at such a low level was about 4 years ago. All of the prior similar occurrences, going back 12 years which included 2007 and 2008, did not last very long (a couple months at most) and rebounded. I made the annotations on the chart to highlight certain events and levels. As I edit this paragraph on January 17th, we have already seen a rebound in stock prices since the Christmas Eve low.

All the research we subscribe to includes price cycle information from the Charles Nenner Research Institute, fundamental research such as stock market price-to-sales, price-to-earnings, etc. from various internet sources, and the technical indicators provided by research sources such as TC2000, Stockcharts.com, and Market Technologies/Vantagepoint. I would say that stock market short term downside risk matches the upside opportunity.

As a reminder, please call the office and set up an appointment if you have not specifically reviewed your financial objectives with us within the last year. This review can be done the same way we do the webinars if you prefer. Also, a copy of the current TCFG ADV Disclosure document can be requested at any time.

From the Grandkids:

Grandma and Grandpa

Morgan 12 Allison 5 Thomas 6 Brooke 8 Samantha 7

We had the whole family together on Christmas Eve day.

Grandpa made a breakfast bread ("Sticky Buns") to share. (At this point I will apologize to Delphine Eschbach who always made this for me when I visited her in Virginia. Her recipe: I think I let it rise too long!) But it did taste good! And I took the related jibes about the source of "hot air" pretty well.

Everyone was reasonably healthy at the time but between then and now (January 10) the cold bug has struck most of them. Sue and I attended at least 5 concerts and Christmas Programs both in San Diego, Wildomar and here between mid-December and Christmas.

We all wish you a very healthy, peaceful, and prosperous New Year!