FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW
CALENDAR YEAR 2019

What Happened:

Throughout 2019, the financial news was peppered with fears of recession, inverted yield curves and slowing global economic growth. These fears proved to be overblown, however, and the market staged one of the best rallies in decades. Even the bond market had the best showing in years with returns topping 8% in 2019.

Looking back at the decade as a whole, the market proved to be very resilient. Coming on the heels of the financial crisis of 2008-09, stock valuations and the economy looked fragile entering the new decade. Remember that stocks had lost over 50% during the financial crisis—the worst decline since the Great Depression. The recovery was slow and gradual, suffering fits and spurts, but here we are now at all-time market highs. This bull market is now the longest in history (almost 11 years old) with cumulative gains of over 180%. That is nearly a tripling in value!

Unfortunately, fear and distrust of the financial system caused many investors to miss out on this rally. We all understand that stock declines are scary events, but since the beginning of the financial markets, there has been more money lost trying to avoid stock declines than from the declines themselves. As investors, we must understand that periodic stock corrections are common and necessary events to keep order and prevent excesses. Staying invested, through thick and thin, is the best and most sensible approach to generate portfolio growth over time.

Calendar Year 2019 Performance:

S&P 500 Index (large stocks)	31.5%
Russell 2000 Index (small stocks)	25.5%
MSCI EAFE Index (international stocks)	22.0%
Barclays U.S. Aggregate Bond Index (bonds)	8.7%

Prognosis:

It is very easy to be influenced by negative headlines that may have profound implications for our country or the world generally but may not have significant or long-lasting effects on the financial markets. Instead, our focus as investors should be on factors that have a strong influence on the markets—corporate earnings growth, interest rates and inflation. The good news is that these factors are all looking positive for the markets going forward.

Our friends at CFRA put together an analysis that suggests that exceptionally good years like 2019 are generally followed by very good years. In fact, in years when the S&P 500 Index returned 13% or more, the subsequent year was positive 82% of the time with an average annual return of 14%. Markets are volatile and unpredictable, but we can still take some comfort that history is on our side.

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