NOTTINGHAM ADVISORS
ASSET MANAGEMENT

How the Grinch Stole Christmas
(Starring Jay Powell and the cast of the FOMC)

Nottingham has often suggested in these missives that bull markets don't die of natural causes, but rather are summarily and somewhat perniciously murdered by the Fed. We fear this time around is no different. The glorious 10-year bull market is, alas, over. Before we shed a tear, however, we should give a shout-out to the enabler of that great run-up in equities – the Fed and the massive amounts of liquidity it pumped into the US economy following the Great Recession. What they giveth, they ultimately taketh away. But did it have to happen like this?

The Federal Open Market Committee (FOMC) met this past week, raised the short-term Federal Funds rate by .25% and suggested that perhaps 2 to 3 hikes were in order for next year, down from 3 to 4 that they previously anticipated. Little consolation it would seem and markets found this too hawkish by far. "Tone deafness" was the phrase used to describe the Fed after this move. Markets were already skittish and needed some sign that newly minted Chair Jay Powell would move more judiciously, perhaps even slowing or ceasing their balance sheet run-off, currently at a pace of $50 billion per month.

The answer in our minds is decidedly NO! Now, we know all good things must come to an end; however, the collapse in equity prices triggered by an overly aggressive Federal Reserve didn't have to happen. Chalk it up to a "rookie mistake" if you will, but new Fed Chair Jay Powell's hawkish tone in an otherwise innocuous October 2nd speech sowed the seeds of doubt in investors' minds and triggered an avalanche of selling that continues as we go to press.

The damage thus far is $6 trillion in US market cap vaporized in the 4th quarter of this year alone. Apple has seen its market cap fall from $1.1 Trillion to $715 billion, a one-third reduction, despite record earnings! Amazon, the other "trillion $" company is now valued at (a far more reasonable) $673 billion, off nearly $330 billion from its peak.

Bond prices, the yin to the stock markets yang, have rallied, thus recouping some of their 2018 losses. The Federal Funds rate began 2018 at 1.50% and after this 4th rate hike of the year now stand at 2.50% - hardly onerous in absolute terms but a large relative change, especially so for the marginal, highly indebted company that is scraping by thanks to the Fed's largesse.

Treasury Yields	2yr Note	5yr Note	10yr Note	30yr Bond
Jan 1, 2018	1.88%	2.20%	2.40%	2.74%
2018 High	2.97%	3.09%	3.24%	3.46%
Dec 21, 2018	2.64%	2.64%	2.79%	3.03%

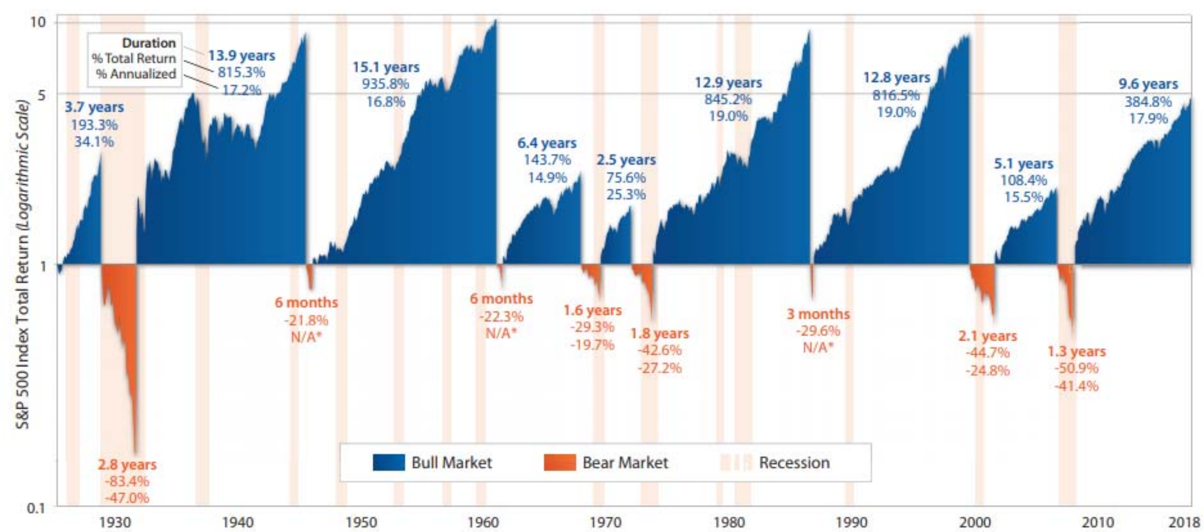
The stock and bond markets are clearly pricing in a material slowdown and possibly a more extreme economic correction, despite a bevy of economic data which suggest continued solid strength in the US economy. Unemployment remains historically low with job openings aplenty; housing has struggled a little as mortgage rates reset higher, but by and large remains steady; third quarter GDP growth came in at 3.4%; inflation is relatively tame.

Equities were certainly priced for sustained growth. They were not cheap, as we've mentioned countless times in prior notes. But earnings grew 25% YoY in 2018 and most analysts predict another 10% growth in 2019. So, what do we do?

Telling you to toss your Q4 statements into the trash heap probably isn't what you're looking for in terms of advice. So, we'll counsel patience to start. We do think this sell-off is highly technical in nature, meaning machine-driven, and not one based on fundamentals. There is a lot of value being created out of this destruction (little consolation I know).

The honest sorts that we are, we'll tell you we don't know when the selling will stop. We'll also tell you we see quite a few things that we'd like to own at current prices (and they don't include bonds). We don't want to throw good money after bad though, so patience (and ultimately courage) will be rewarded in our minds.

After 9 straight years of gains for the S&P 500, we can be forgiven for forgetting that markets can fall. Over the past 30 years, stocks have posted negative returns in 5 of the 30 periods (16% of the time). It's important to keep that in mind and play the odds for a positive return year (84% over the past 30 years). Market declines hurt, no doubt.



Source: First Trust Advisors L.P., Morningstar. Returns from 1926 - 9/28/18. *Not applicable since duration is less than one year.

The above chart, however, can lend some perspective – again play the odds. Do you want to bet on the Blue (bull market), or the Orange (bear market)? Psychologically it's been demonstrated investors feel the sting of losses far more acutely than the pleasure of gains. We're hard-wired that way. However, patience and discipline have likely created more millionaires than virtually anything else – certainly more than market-timing.

At Nottingham, we've been hard at work throughout the 4th quarter trying to turn some lemons into lemonade. By that I mean we've been doing a lot of tax-loss swapping, mitigating gains we realized earlier in the year. The less that goes to the tax-man, the more you keep.

Our portfolios have a built-in bias to protect capital on the downside. We feature the "low volatility" factor extensively throughout our different strategies. While it can sometimes be frustrating to trail the benchmark a tad in up markets, it feels good to give up less when things go south. More than anything it's an acceptance that volatility is part of investing (the past 2 years notwithstanding).

Markets are currently digesting a whole lot of uncertainty. The political sideshow in Washington (I think it's actually taken centerstage sadly) isn't helping confidence. The path of least resistance for stocks could be lower in the near term. But I would rather be a buyer than a seller at these levels as Nottingham sees increasing value in equities. We're convinced our best days truly are ahead and Patience and Fortitude will be rewarded.

Nottingham values all our client and advisor partnerships. We appreciate that you've entrusted us with assets to manage, grow and protect. We're always available to talk, analyze, review, lend advice or merely commiserate. As we wrap up another year, let us extend our thanks to you and reiterate our promise to steadfastly fulfill our fidcuiciary responsibility to our clients and advisor partners. We thank you for your business.

Happy New Year,

Larry Whistler, CFA
President/Chief Investment Officer
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