



NOTTINGHAMADVISORS
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%

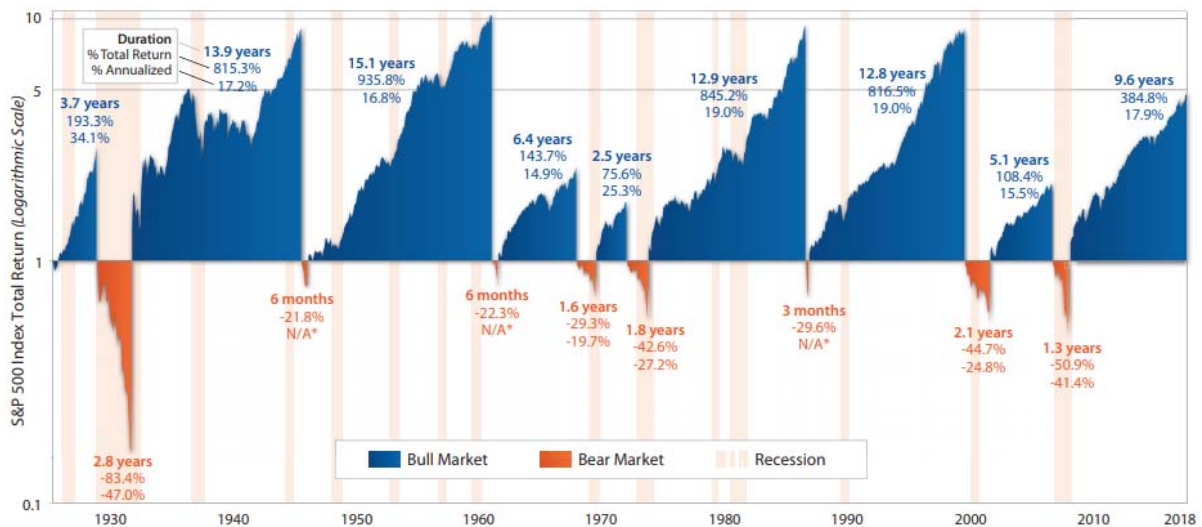
The stock and bond markets are clearly pricing in a material slowdown and possibly a more extreme economic correction, despite a bevy of economic data which suggest continued solid strength in the US economy. Unemployment remains historically low with job openings aplenty; housing has struggled a little 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 LP, 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 fiduciary responsibility to our clients and advisor partners. We thank you for your business.

Happy New Year,

Larry Whistler, CFA
President/Chief Investment Officer
December 2018

Nottingham Advisors, LLC ("Nottingham") is an SEC registered investment adviser located in Amherst, New York. Registration does not imply a certain level of skill or training. Nottingham and its representatives are in compliance with the current registration and notice filing requirements imposed upon SEC registered investment advisers by those states in which Nottingham maintains clients. Nottingham may only transact business in those states in which it is registered, notice filed, or qualifies for an exemption or exclusion from registration or notice filing requirements. For information pertaining to the registration status of Nottingham, please contact Nottingham or refer to the Investment Advisor Public Disclosure Website (www.adviserinfo.sec.gov). Any subsequent, direct communication by Nottingham with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides.

This newsletter is limited to the dissemination of general information pertaining to Nottingham's investment advisory services. As such nothing herein should be construed as the provision of personalized investment advice. The information contained herein is based upon certain assumptions, theories and principles that do not completely or accurately reflect your specific circumstances. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Adhering to the assumptions, theories and principles serving the basis for the information contained herein should not be interpreted to provide a guarantee of future performance or a guarantee of achieving overall financial objectives. As investment returns, inflation, taxes and other economic conditions vary, your actual results may vary significantly. Furthermore, this newsletter contains certain forward-looking statements that indicate future possibilities. Due to known and unknown risks, other uncertainties and factors, actual results may differ materially from the expectations portrayed in such forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of their dates. As such, there is no guarantee that the views and opinions expressed in this article will come to pass. This newsletter should not be construed to limit or otherwise restrict Nottingham's investment decisions.

This newsletter contains information derived from third party sources. Although we believe these third party sources to be reliable, we make no representations as to the accuracy or completeness of any information prepared by any unaffiliated third party incorporated herein, and take no responsibility therefore. Some portions of this newsletter include the use of charts or graphs. These are intended as visual aids only, and in no way should any client or prospective client interpret these visual aids as a method by which investment decisions should be made. We have provided performance results of certain market indices for illustrative purposes only as it is not possible to directly invest in an index. Indices are unmanaged, hypothetical vehicles that serve as market indicators and do not account for the deduction of management fees or transaction costs generally associated with investable products, which otherwise have the effect of reducing the performance of an actual investment portfolio. It should not be assumed that your account performance or the volatility of any securities held in your account will correspond directly to any benchmark index. A description of each index is available from us upon request. Investing in the stock market involves gains and losses and may not be suitable for all investors. Past performance is no guarantee of future results.

For additional information about Nottingham, including fees and services, send for our Disclosure Brochure, Part 2A or Wrap Brochure, Part 2A Appendix 1 of our Form ADV using the contact information herein.

www.nottinghamadvisors.com

NEW YORK OFFICE : 100 Corporate Parkway : Suite 338 : Amherst, NY 14226 : 716-633-3800 : 716-633-3810 Fax

FLORIDA OFFICE : 3801 PGA Boulevard : Suite 600 : Palm Beach Gardens, FL 33410 : 800-281-8974