TOTH FINANCIAL

# January 2019 Market Commentary

Mark your calendars for April 27, 2019; this will be our annual **Client Appreciation Day** brunch which will be held at Lansdowne County Club. This year's speaker will be Jeff Skiles, Co-Pilot of U.S. Airways Flight 1549, "The Miracle on the Hudson".

---

Our opening commentary of 2018 called for a positive year of growth, a return of volatility, and that it would be healthy to have a pullback sometime during the year. The year has ended, the economy continued to grow, and volatility returned, as well as, two healthy corrections throughout the year.

Despite the passage of corporate tax reform, consumer confidence remaining at elevated levels, historically low interest rates, inexpensive energy costs, small business optimism remaining near all-time highs, and continued GDP growth, 2018 has concluded and the S&P 500 Index finished the year with a loss of 6.24%.

As of the 2018 year-end, the S&P 500 Index has a forward-looking price-to-earnings (PE) ratio of 14.36 based on current estimates. This ratio is a measure of how much investors are willing to pay relative to what companies are earning. The 50-year average PE ratio of the S&P 500 Index is 19.05.

*To put this into simpler terms, we estimate that the S&P 500 Index is nearly 25% below the historical 50-year measure thereby creating potential value in the market.*

Corporate earnings growth in 2018 was at unsustainable levels because of the effects of the 'one-time bump' from corporate tax reform. The 2018 earnings numbers are not final yet but are estimated to come in around 23% year-over-year growth. There is some concern and fears of peak earnings growth or a slowdown in growth. The expectation is corporate earnings growth will "slow" in 2019 from the elevated levels in 2018 to be more in line with the 50-year average growth rate of 7.8%.

*Again, to put this into simpler terms, we believe the S&P 500 Index growth rate will slow this year but only back to a moderate rate; neither too slow nor too fast.*

As stated earlier, 2018 saw two technical market corrections; in January-February the S&P 500 Index corrected around 12% from highs and this latest correction in October-December where the S&P 500 Index has corrected around 20% from highs.

We cannot yet determine if this latest correction has run its course. What we can do is look back at history and use the current data to determine our guidance going forward. In looking at history, according to data from Yardeni Research, over 70% of market corrections from the past 50 years lasted just 2-3 months. We believe the data estimates discussed above and the strong economic fundamentals still in place support our assessment that the market trend is unbroken and will be positive for this next year. As difficult as it can be to watch the Dow move up and down with 1,000-point swings in a single day, historically it is best to be patient.

Our strategy remains unchanged and is to focus on defensive, dividend paying stocks that better weather the short-term market volatility. We anticipate the day-to-day market action to remain volatile for the beginning of 2019 but believe that investing into the proper equities will yield growth in your portfolios particularly if current estimates become reality.

Tom

www.tothfinancial.com
608 South King Street, Suite 300,
Leesburg, VA 20175
703.443.8684 *main* / 800.445.1880 *toll free* / 703.669.4577 *fax*