Gore Capital Management

Our only client is you.

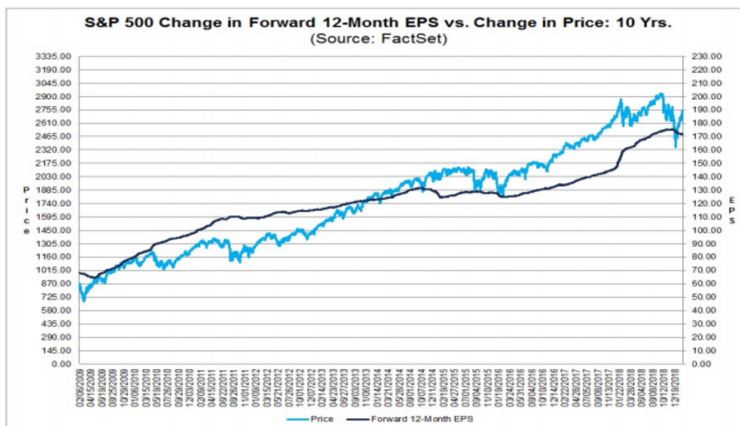
Market & earnings recap

After suffering through the worst December in nearly a century (since the Great Depression), stocks have roared back to enjoy the best January in 32 years. Talk about a roller-coaster. The S&P 500 has now erased all of 2018's calendar year loss and more than half of its decline from the all-time highs of September. International markets haven't fared quite as well; they've had the same strong start to 2019, but still have quite a bit of work to do to approach their own all-time highs that were reached late last January.

We try to release our newsletters towards the end of earnings season so that we can share the aggregated results of the prior quarter with you. For some reason, this earnings season seems to be taking longer than usual. Despite finding ourselves now in the middle of February, just two thirds of S&P 500 component companies have reported fourth quarter results. We don't think there's anything sinister afoot – it's just the way the calendar happened to fall.

Onto the numbers. Of the 66% of companies that have reported, nearly three quarters have beaten earnings estimates with blended earnings growth of 13.3% year-over-year. Assuming the trend holds, this quarter will mark the fifth consecutive quarter of double-digit earnings growth.

Thanks to continued strong earnings, the P/E ratio of the S&P 500 index is now below the 5-year average but still above the 10-year average. We would define this level as "reasonable" and supportive of current market prices. It's easy to look back on the last 10 years and say the markets have been on a tear, expecting a bubble to burst at any minute, but the actual fundamental data says that much of the market's growth has been justified and the consequence of a healthy corporate America rather than wild speculation (All data from [Factset]).



S&P 500 price (blue) versus earnings (black). Market prices declined last year while earnings steadily rose, reducing P/E ratios towards long-term averages

The road ahead

Now for the other side of the coin. Companies' performance in a given quarter is often evaluated versus the results of the same period last year (you'll hear this referred to as "comps."). Because 2017 and 2018 were so good, companies are going to have difficulty beating last year's comps going forward. In fact, analysts are actually expecting a small decline in earnings for 1Q 2019 versus 1Q 2018. Full 2019 calendar year earnings expectations are still positive (current estimate is +5.0%), however.

Market Statistics	4Q 2018	YTD (as of 1/31/19)	2018	3-Year Annl.	5-Year Annl.
S&P 500	-13.66%	7.97%	-4.94%	8.59%	7.83%
Dow Jones Ind. Avg.	-11.31%	7.29%	-3.48%	12.94%	9.70%
Russell 2000 (Small Cap)	-20.29%	11.23%	-11.35%	6.93%	4.00%
MSCI EAFE (Foreign)	-12.54%	6.57%	-13.79%	2.87%	0.53%
MSCI ACWI (Global)	-12.75%	7.90%	-9.41%	6.60%	4.26%
MSCI Emerg. Mkts. Equity	-7.47%	8.77%	-14.58%	9.25%	1.65%
Barclay's Aggregate Bond	1.64%	1.06%	0.01%	2.06%	2.52%
S&P GSCI Gold (Spot)	7.11%	3.43%	-2.14%	6.52%	1.28%

Source: Morningstar

Earnings reports are also telling us that the trade war is indeed taking a toll on results. US companies with more global exposure (defined as deriving 50%+ of sales outside the US) saw roughly half of the earnings growth that companies with less global exposure experienced in 4Q 2018. That trend is expected to continue through calendar year 2019, though a trade deal would no doubt improve the dichotomy. (All data from Factset).

Regardless of what the actual numbers show, the story remains the same. Earnings growth isn't going to be as good as it was last year and the year before. It can still be good, but at this point we think it's fair to expect earnings to be "less good" for the foreseeable future. Does that change our investment plan? No. Valuations are still reasonable, even if earnings slow down a little bit. It just means we probably won't see 10%+ returns on the S&P for the next couple of years.

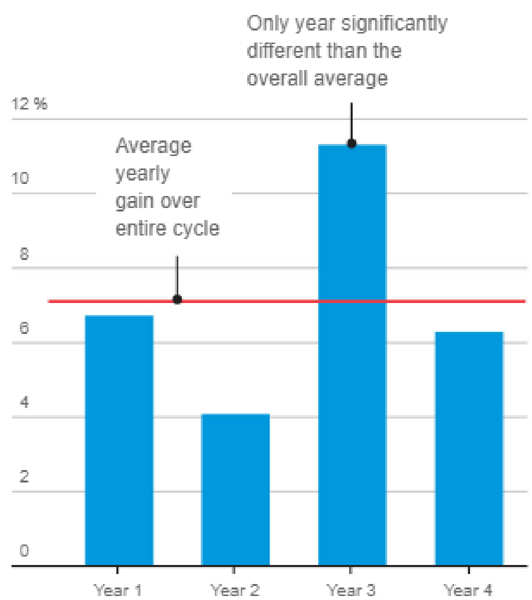
The good news is that we think it's still too early to expect a recession; economic data and corporate earnings are too healthy for recession to be a major risk in the very near future. That being said, it is the next natural step in the economic cycle and it will happen eventually.

Economic & political noise

What's going on outside of corporate America that could impact the markets going forward? We've discussed the trade war and the Federal Reserve ad nauseum, so we'll skip those in this newsletter. Just know that both stories are still very much relevant, but we have seen positive movement on both.

We've had several questions about Mueller's Russia probe now that it's nearing its end. While there have been several high-profile arrests, we have not seen a "smoking gun" that ties President Trump directly to collusion. It's difficult to predict how markets would respond if Mr. Mueller does produce bombshell evidence that leads to impeachment/trial. Bill Clinton is the only president in the last 100+ years to be impeached (though he was not convicted even with a Republican majority in the Senate). Nixon chose to resign instead of face certain impeachment and conviction. In the case of the former, markets mostly shrugged off the proceedings because the economy was humming along. In the case of the latter, markets were already in turmoil over rising inflation and an oil crisis. Major headline news like this would no doubt cause short-term jitters, but history suggests that investors would quickly refocus their attention on the economic implications of the new president's agenda. Changes (or potential changes) to fiscal policy tend to receive the most interest from market participants.

DJIA performance by presidential year



Note: Since 1896; yearly price-only gain of Dow Jones Industrial Average measured from Nov. 1 to Oct. 31

Source: HulbertRatings.com

Fortunately, we don't have any elections this year. No campaign ads promising a chicken in every pot and a new car in every driveway. That should mean investors can focus on the matters-at-hand instead of the matters-that-might-be-at-hand-if-so-and-so-is-elected. We've read that the third year of a sitting president's term has historically produced the best market returns. This may be because Congress tends to split (each party controls one house) after the midterm elections, meaning very little substantive legislation can be passed on either side. Could it be that gridlock is good for business?

All the best,
Peter, Ben, & Keri

GCM's Top Holdings	4Q 2018	YTD (as of 1/31/19)	2018	3-Year Annl.	5-Year Annl.
PIMCO Income (PONPX)	0.71%	1.65%	0.48%	5.79%	5.39%
FPA Crescent (FPACX)	-10.52%	7.92%	-7.43%	4.05%	3.31%
Litman Gregory Masters Alt (MASFX)	-2.81%	2.61%	-2.08%	3.03%	2.37%
Vanguard Mega Cap Value (MGV)	-10.13%	6.50%	-4.05%	9.33%	8.06%
First Eagle Overseas (SGOIX)	-7.46%	5.37%	-9.99%	2.92%	2.10%
T Rowe Price Blue Chip Grwth (TRBCX)	-14.22%	11.11%	2.01%	12.05%	11.31%
Dodge & Cox Stock (DODGX)	-13.57%	8.51%	-7.07%	10.07%	7.06%
Virtus Seix Floating Rate (SAMBX)	-3.42%	2.51%	0.22%	4.98%	2.88%

Source: Morningstar

Ben's Corner

Spring may still be a few weeks away, but that doesn't mean you can't get started on your spring cleaning early! The spring season also happens to coincide with tax time, meaning it offers a great opportunity to review financial records and toss those old utility bills from 1979. But which documents should you keep and which should you throw away? Here's a brief (but certainly not exhaustive) list:

Keep for a year

- Credit card statements and transaction receipts should be kept until you file your tax return.
- Paper bank statements and cancelled checks should also be kept until you file your tax return.
- Investment account statements should also be kept until transactions have been reconciled with your 1099
- Medical receipts can be shredded after tax filing season.

Keep for 7 years

- Documents that support your tax returns: 1099 statements, W2s, charitable contribution receipts, receipts and records for your deductions, et cetera

Keep forever

- Tax returns: the IRS has three years in which to conduct an audit under normal circumstances. However, there is no statute of limitations on audits if they suspect fraud.
- As a helpful follow-up suggestion, don't defraud or attempt to defraud the IRS.
- Annual statements for investment accounts should be kept for as long as possible, especially transaction records which contain cost basis information. If needed, we can help you track down missing cost basis.
- Receipts for home improvements should be kept for tax documentation until you sell the home.
- Receipts for big purchases (television, jewelry) for insurance documentation should be kept for the life of the item.
- Any physical document that is evidence of a legal proceeding should be maintained in a secure location such as a fire-proof and theft-proof safe or a bank safety box. While you may find it convenient to scan copies for digital storage, a physical copy should always be maintained and accessible to family members. This includes birth certificates, Social Security cards, deeds and titles, marriage licenses, powers of attorney and wills (just to name a few).

When in doubt about an item, ask your financial advisor, CPA, or attorney whether you need to hang onto it. If you're comfortable using paperless banking/billing, you can probably eliminate the need to keep many of the above items in physical form. As for the material side of spring cleaning, I highly recommend picking up Marie Kondo's book, *The Life Changing Magic of Tidying Up.* And here's a link to a spring cleaning checklist from Martha Stewart.

Happy organizing!

Market Movers	4Q 2018	YTD (as of 1/31/19)	2018	3-Year Annl.	5-Year Annl.
Alphabet (GOOGL)	-13.43%	7.74%	-0.80%	10.33%	7.50%
Amazon (AMZN)	-25.01%	14.43%	28.43%	30.50%	30.37%
Apple (AAPL)	-29.80%	5.52%	-5.12%	16.22%	16.11%
Chevron (CVX)	-10.12%	5.39%	-9.52%	10.65%	0.86%
General Electric (GE)	-32.86%	34.21%	-54.50%	-32.20%	-16.29%
JP Morgan Chase (JPM)	-12.78%	6.84%	-6.40%	16.34%	12.89%
Microsoft (MSFT)	-11.19%	2.82%	20.21%	24.04%	23.70%
Verizon (VZ)	6.43%	-0.99%	10.70%	10.99%	6.57%

Source: Morningstar

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