TL Financial Group
QUARTERLY ECONOMIC UPDATE

January 2019 A review of Q4

QUOTE OF THE QUARTER:

" Time is the most valuable thing a man can spend."
THEOPHRASTUS

UPCOMING EVENTS

2018 Review Q4 Overview & Economic Outlook
February 20, 2019
10:00 am or 6:00 pm
Wayne County Community College Downriver

Cyber Security
March 6, 2019
6:00 pm
Wayne County Community College Downriver

Medicare Planning
April 17, 2019
Ages 60 and up
6:00 pm
Wayne County Community College Downriver

Register Online:
Did you know that you can now register online for our upcoming workshops and events? Located under the Events Tab @
www.tlfgroup.net
Check back often for updates

Current Email Address
Do we have a current email address on file? We will begin sending out email notifications with our upcoming events. Call the office if you need to update yours.

Terrible December caps off tough year for markets

Unfortunately, investors who were holding out hope for a year-end rally were disappointed. As 2018 came to its end, rising political and economic concerns weighed on global markets. This turmoil capped off a disappointing quarter and year for equities.

Among U.S. markets, the Nasdaq Composite fared the worst. It saw losses of 9.40 percent for the month and 17.29 percent for the quarter. For the year, though, the Nasdaq was down only 2.84 percent. The Dow Jones Industrial Average had similar results. It lost 8.59 percent for the month and 11.31 percent for the quarter, contributing to a loss of 3.48 percent for the year. Finally, the S&P 500 declined by 9.03 percent in December. This led to a drop of 13.52 percent for the quarter and 4.38 percent for the year.

December's selloff resulted from concerns over the government shutdown, among other political worries. All three U.S. indices remained below their 200-day moving averages. As such, investors' long-term outlook on U.S. equities may be turning more negative. But even with the recent volatility, there is reason for some optimism.

Fundamental earnings growth continues to be supportive for equities. According to FactSet, the estimated earnings growth rate for the S&P 500 in the fourth quarter is 12.4 percent (as of December 21, 2018). Although down from the third quarter, this result would represent the fifth straight quarter of double-digit earnings growth. Fundamentals drive performance. So, this double-digit growth is reassuring in the face of recent selloffs. From a valuation perspective, the current S&P 500 forward 12-month price-to-earnings ratio is now below its 5- and 10-year moving averages.

Fixed income had a better end to 2018, although the annual results were disappointing. The Bloomberg Barclays U.S. Aggregate Bond Index gained 1.84 percent in December and 1.64 percent in the fourth quarter, as rates fell to end the year. The 10-year U.S. Treasury yield was very volatile in 2018. It started the year at 2.46 percent, hit a high of 3.24 percent in November, and finished the year at 2.69 percent. But the large decline in yields at year-end was barely enough to offset earlier volatility. In fact, the index eked out a gain of only 0.01 percent for the year. The Federal Reserve (Fed) raised rates three times in 2018, as the unemployment rate remains at multidecade lows and inflation measures are above the Fed's target range.

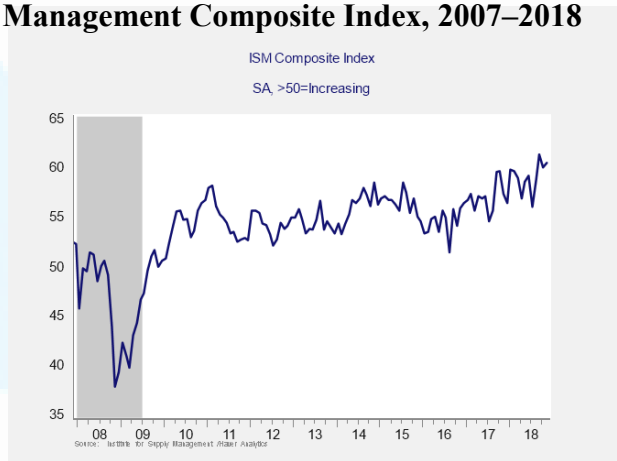
High-yield fixed income, which is typically less affected by rates, had a rough end to the year. It saw a loss of 2.14 percent in December, leading to a quarterly loss of 4.53 percent and an annual loss of 2.08 percent. High-yield spreads have spent the past two years largely range bound. But they increased dramatically in December, as investors reevaluated the risk-and-reward potential for the asset class.

Economic growth continues

Financial markets do not define the economy. So, despite the past few months of market volatility, the economy remains solid. When we look at the economic fundamentals, there is still reason for optimism as we head into 2019. The driver of the current expansion, the U.S. consumer, continues to make and spend more money. High levels of consumer confidence showed that shoppers were willing to spend. Indeed, we have seen solid growth in retail sales for the past two months, including the important holiday season. Personal income and wage growth in November were also healthy. These solid results suggest that spending growth is sustainable.

Business owners also remain confident in the economy. Both the manufacturing and nonmanufacturing sentiment surveys increased in November. These increases came against expectations for modest declines. As you can see in Figure 1, the Institute for Supply Management Composite Index shows confidence near post recession highs.

Figure 1. Institute for Supply Management Composite Index, 2007–2018



This strong sentiment is encouraging. High confidence levels have historically led to higher spending, which helps grow the economy. Real data supported these high confidence levels, as businesses also continued to spend to end the year. November's durable goods orders, often used as a proxy for business investment, rose by a solid 0.8 percent on increased aircraft orders. Industrial production also increased in November. Here, though, some cold weather effects likely made this growth figure look better than it actually was.

The good news is that business sentiment and investment are positive. Unfortunately, this is not true for one of the other major sectors of the economy: housing.

Housing slowdown continues

The housing sector continued to disappoint to end the year. Home builder sentiment, which collapsed in November, continued to drop. Pending home sales, which were expected to increase modestly in November, fell by 0.7 percent instead. That said, housing starts actually rose last month, against an expected decline. So, the slowdown may be moderating.

Going forward, we do see signs of optimism for housing. An unexpected increase in existing home sales may indicate a moderating slowdown. Further, slowing sales have led to more inventory, which could lead to lower prices and increased activity. Lower mortgage rates will also help. Given the many knock-on effects that housing spending generates, this will be an important area of the economy to watch as we start 2019.

Government shutdown highlights political risks

Of course, economic worries are real. But what absolutely hit markets in December was politics. The month started with a spat between the Fed and the White House over rising interest rates. It ended with a confrontation between Congress and the White House, resulting in the current government shutdown.

Either of these conflicts would have rattled markets. But both in one month did real damage. Fortunately, there appears to be no true threat to Fed independence. And while a government shutdown is certainly worth paying attention to, historically, the impact of a short-term shutdown on economic growth has been minimal. There is even some potential upside here. If congressional leaders and the president can find a compromise, it would likely help markets recover.

There were political risks outside the U.S. as well. The trade war with China rumbled on, raising fears of an economic slowdown there. Plus, the British political debacle around Brexit rattled European markets.

Once again, markets are now pricing in terrible outcomes. But there is the potential for positive events to lead to a market rally. The resumption of trade talks between the U.S. and China in January is just one example of a potential tailwind. In Europe, more clarity on Brexit would likely lead to a rally in those markets.

Risks remain, but U.S. outlook remains strong

Heading into 2019, there are still areas of the economy worth monitoring. But on the whole, things look pretty good here in the U.S. Our economy continues to expand at a healthy pace, driven by confident consumers and business owners spending more. Corporate fundamentals also remain strong. Although the effects of tax reform may moderate, continued deregulation should help support these results.

As we have seen this year, risks certainly still remain, even in a good economic environment. Political risks are likely to drive volatility in 2019—but it is anyone's guess as to how and when. Given the volatile times we are in, a well-diversified portfolio matched with an investor's time horizon remains the best path to ride out turbulent times and meet financial goals.

A Note From Our Founder, Tony LaJeunesse

Welcome to 2019!

We hope that you and your family had an enjoyable holiday season. As we look toward 2019, no can predict with certainty, what new changes or challenges may occur. Our goal this year is to continue to help you achieve your personal financial goals and to keep you informed of important changes that can affect you.

One of our primary aspirations is to maintain our long-term relationship with you, our client. We appreciate the confidence that you have shown in our firm. As a firm, we review the services that we provide for our clients each year. One of our company's main objectives is to always offer our clients a first-class experience. Therefore, in an effort to providing the very best in wealth management and fiduciary excellence, we will continue to offer the following services and some new ones!

- Quarterly and weekly economic updates
- Tax planning tools that will help assist you under the Tax Cuts and Jobs Act of 2017
- Educational workshops on relevant topics; ***Economic Update, Medicare Planning, Cyber Security, Executor/Beneficiary Workshop, IRA Planning, Tax Planning and more!***
- ***NEW***: Timely/Educational video updates on our website!
- ***NEW***: Significant operational, planning and client interface software updates

  **** You are able to register for our events through our website***

We will continue to always be available to provide the proper attention that you and your finances deserve by offering a strong and frequent line of communication. 2019 once again allows us with the opportunity to help you plan appropriately for your personal financial future. We are proud of our ability to understand and effectively respond to our clients' needs and concerns and enjoy providing information and services to our clients.

As a valuable client, we always like to say "thank you" for allowing us to help you achieve your financial goals. Our primary goal for 2019 is to help you with your investment needs while building upon our company's objective of spending time with you.

As we look back at the growth of our company, our best relationships have often started with introductions from our best clients. Through these introductions we have been able to meet high quality people who many times can benefit from our services. We are fortunate that many of our best clients, like you, have introduced us to some friends and peers. Recognizing that, we are asking for your support. Throughout the year, we will ask you to either add someone's name to our mailing list or bring them to one of our educational workshops so we can share the information we provide about the current economic, estate planning, and tax environment. Our goal is to add 15-20 new families to our firm this year that are just like you!

As president of TL Financial Group I am proud of our team that looks after your comprehensive financial needs. Thank you very much for being a valuable client. We look forward to a great year!

Our best,

Tony, Michelle, Erin, Christina, Kat, Kelli, Stacy and Robin

Don't Keep Us a Secret!

HELP US GROW IN 2019!

Do you know someone that could benefit from our services?

We welcome referrals from you! Referrals are appreciated and they are the greatest compliment to receive!

We would be honored if you would:

- Add a name to our mailing list
- Bring a friend to a workshop that may benefit from our services
- Have them come in for a complimentary initial consultation
- Check out our website or Facebook page www.tlfgroup.net

TL FINANCIAL GROUP

Disclosure: *Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.*

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Educational Workshops
Hosted by TL Financial Group

Q4 Overview & Economic Outlook

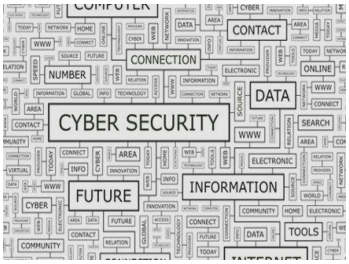
Please join us for an educational presentation as we look back at Q4, the Market Review, and the 2019 Economic Outlook.

Wednesday, February 20, 2019 at 10:00 am or 6:00 pm
at Wayne County Community College - 21000 Northline Rd. Taylor, MI 48180
Room Epac #7 in the front of the school on the second floor.
Please reserve your spot by February 15, 2019
Register online or by calling
(734) 250-8041 or online at www.tlfgroup.net

Savvy Cybersecurity:
10 Threats Every Person Should Know—and How to Fight Them Now!

Identity theft is one of the fastest growing crimes. Data breaches, computer hacks, phishing, and more.

This interactive workshop will cover:
- How to protect your child's credit before it is too late
- How an ATM can put your identity at risk
- 3 tips to making your smartphone/tablet more secure
- How your home Wi-Fi is putting you and your family's security at risk
- 2 methods fraudsters use to impersonate your business
- Why you should review your social media privacy settings now



Wednesday, March 6, 2019 at 6:00 pm
at Wayne County Community College - 21000 Northline Rd. Taylor, MI 48180
Please reserve your spot by March 1, 2019
Register online or by calling
(734) 250-8041 or online at www.tlfgroup.net

Managing Health Care Expenses in Retirement

WHAT BABY BOOMERS NEED TO KNOW ABOUT MEDICARE AND LONG-TERM CARE

- How Medicare enrollment periods work and what you need to do to avoid late-enrollment penalties
- How much you can expect to pay in health care costs after going onto Medicare
- How Medicare works with private insurance to provide comprehensive coverage
- Why most people pay too much for private insurance and how you can avoid excess costs
- Why you must plan for higher health care costs in retirement -including the possibility of needing long-term care

Wednesday April 17, 2019 at 6:00 pm
Wayne County Community College Downriver Campus
21000 Northline Rd. Taylor, MI Located in the front of the school in classroom EPAC #1