Demming Financial Services Corp.

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1st Quarter

Heads Up…

As a result of recent regulation changes, certain account paperwork will need to be updated in the coming months. Thanks in advance for your cooperation!

Please be sure to send us a copy of your 2018 tax returns to info@demmingfinancial.com as they're completed!

As a friendly reminder, for your protection, it is our ongoing policy that any requests for funds sent to us via email will also be confirmed by phone.

Please be sure to let us know if there are any changes to your contact information (address, phone number, email, etc.)

Please note, the main inbox for prompt email correspondence is info@demmingfinancial.com!

Also, please be sure to check out our website at www.demmingfinancial.com!

Believe At Your Own Risk

We're about to enter that exciting time of year when all sorts of market predictions are made by people who are mostly claiming that they knew the future and have accurately predicted it over a great track record. If you're smart, you'll turn off the TV or move on to the next article.

The truth is that none of us can accurately predict the movements of the markets. If we could, then we would always make trades ahead of market moves, and it wouldn't take long before that amazing prognosticator with the working crystal ball would have amassed billions off of his or her stock market trades. Have you read about anybody doing that lately?

"YOU CAN COME BACK DOWN NOW, HARLOW. THE DOW HAS STARTED TO CLIMB BACK UP."

Most of these people are employed at think tanks or sell their predictions to credulous investors. Would they need that salary check or your hard-earned subscription dollars if they had the ability to make billions just by checking the 'ol crystal ball a couple of times a day?

A recent article by frequent blogger Barry Ritholtz offers some rather amazing data on people in the prediction business. You may know that the cryptocurrency known as "bitcoin" is now worth about $3,500—way *WAY* down from the start of the year. So how well did the people in the prediction business foresee that downturn?

Not well. In his article, Ritholtz noted that Pantera Capital predicted that Bitcoin would be selling for $20,000 by the end of this year. Tom Lee of Fundstrat was more bullish, forecasting that bitcoin would breach $25,000 by now. Prognostications by Anthony Pompliano, of Morgan Creek Digital Partners, were still more bullish, predicting bitcoins worth $50,000 by the end of this year. John Pfeffer, who describes himself online as "an entrepreneur and investor," anticipated $75,000 bitcoins by now, and Kay Van-Petersen, Global Macro-Strategist at Saxo Bank, one-upped everybody with his prediction that bitcoins would be worth $100,000 by December 31 of this year.

Ritholtz offers other examples, like radio personality Peter Schiff telling listeners since 2010 that the price of gold has been hiding toward $5,000 an ounce. (It's riding around $1,200 currently.). Jim Rickards, former general counsel at Long-Term Capital Management, is more ambitious, telling his followers that he has a $10,000 price target for an ounce of gold.

If you happen to follow former Reagan White House Budget Director David Stockman, you have been told that stocks are going to crash in 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019. Someday he's going to be right, and will no doubt be touting his amazing prediction abilities.

When you read about a prediction, instead of reaching for the phone to call your financial advisor, try writing the prediction down on a calendar or reminder program like the app followupthen.com, and come back to it a year later. Chances are you'll be less impressed then than you might be now.

2018 Year-End Investment Market Report

This was the year the long, seemingly endless bull market came to a crashing halt--and U.S. investors finally, for the first time since 2008, experienced the normal definition of a bear market (down 20% from the S&P 500's all-time high on September 20). The bottom fell out in the final month of the year, which started with a decent chance of another year of overall annual gains and ended in disappointment.

Looking back, it was a strange investment year in many respects. First, the markets endured two major beatings--from late January to early February, and again from early October and especially through December. Christmas eve notched the worst market drop on record in terms of actual dollars. The S&P 500 index registered the worst December performance since 1931. This will be the first time since 1948 that the S&P 500 index rose in the first three quarters and then finished the year in the red.

Meanwhile, for unlucky investors in cryptocurrency Bitcoins, the year's investment news may have rivaled the crashing of the famous Dutch Tulip craze. The entirely-made-up currency, backed by no government or pool of assets, dropped from a high of $20,000 per "coin" down to $3,800 (-81%)

A breakdown shows that just about every investment asset dropped in 2018. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—fell 14.29% in the 4th quarter, finishing the year down 5.27%.

Looking at large cap stocks, the Wilshire U.S. Large Cap index lost 13.69% in the fourth quarter, providing a negative 4.64% return for the year. The widely-quoted S&P 500 index of large company stocks lost 13.97% during the year’s final quarter and overall finished down 6.24% in calendar 2018.

Meanwhile, the Russell Midcap Index finished the 2017 calendar year down 9.06%.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies were hit hard, losing 19.67% in the final quarter, to end the year with a negative 10.84% return. So much for the FAANG stock craze: the technology-heavy Nasdaq Composite Index dropped 17.54% in the final three months of the year, to finish down 3.88%.

The pain was even greater for international investors. China's Shanghai composite index fell 24.6% in 2018, the largest drop since 2008, and Japan's Nikkei 225 Index fell 12.1%.

Overall, the broad-based EAFE index of companies in developed foreign economies lost 12.86% in the final quarter and ended the year down 16.14% in dollar terms. In aggregate, European stocks were down 17.27% in 2018, while EAFE's Far East Index lost 13.97%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, lost 7.85% in dollar terms in the fourth quarter, giving these small components of most investment portfolios a 16.64% loss for the year.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 6.93% loss during the year's final quarter, finishing the year down 4.84%. The S&P GSCI index, which measures commodities returns, dropped a remarkable 22.94% in the 4th quarter, to finish the year down 13.82%.

In the bond markets, coupon rates on 10-year Treasury bonds have risen incrementally to 2.68%, creating the unusual situation of losses in bond investments in the same year as losses in stocks. Similarly, 30-year government bond yields have risen slightly to 3.01%. Five-year municipal bonds are yielding, on average, 1.96% a year, while 30-year munis are yielding 3.09% on average.

ETF Total Returns (2008 - 2018, as of 12/31/18) @CharlieBilello

ETF	Asset Class	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-18 Cumulative	2008-18 Annualized
SPY	US Large Caps	-36.9%	26.4%	15.1%	1.9%	16.0%	32.2%	13.5%	1.2%	12.0%	21.7%	-4.5%	114.4%	7.2%
IWM	US Small Caps	-34.2%	28.5%	26.9%	-4.4%	16.7%	38.7%	5.0%	-4.5%	21.6%	14.6%	-11.1%	106.4%	6.8%
EEM	EM Stocks	-48.9%	69.0%	16.5%	-18.8%	19.1%	-3.7%	-3.9%	-16.2%	10.9%	37.3%	-15.3%	-2.6%	-0.2%
EFA	EAFE Stocks	-41.0%	27.0%	8.2%	-12.2%	18.8%	21.4%	-6.2%	-1.0%	1.4%	25.1%	-13.8%	4.1%	0.4%
PFF	Preferred Stocks	-23.9%	37.6%	13.8%	-2.0%	17.8%	-1.0%	14.1%	4.3%	1.3%	8.1%	-4.7%	69.0%	4.9%
HYG	High Yield Bonds	-17.5%	27.4%	11.9%	6.8%	11.7%	5.8%	1.9%	-5.0%	13.4%	6.1%	-2.0%	69.2%	4.9%
LQD	Investment Grade Bonds	2.5%	7.9%	9.3%	9.7%	10.6%	-2.0%	8.2%	-1.3%	6.2%	7.1%	-3.8%	68.0%	4.8%
TLT	Long Duration Treasuries	34.0%	-22.1%	9.0%	34.0%	2.6%	-13.4%	27.3%	-1.8%	1.2%	9.2%	-1.6%	84.2%	5.7%
TIP	TIPS	-0.5%	7.5%	6.1%	13.3%	6.4%	-8.5%	3.6%	-1.8%	4.7%	2.9%	-1.4%	35.3%	2.8%
BND	US Total Bond Market	5.2%	2.9%	5.3%	7.7%	3.9%	-2.1%	5.8%	0.6%	2.5%	3.6%	-0.1%	40.9%	3.2%
BIL	US Cash	1.5%	0.3%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	0.1%	0.7%	1.7%	3.9%	0.3%
EMB	EM Bonds (USD)	-2.1%	15.4%	10.8%	7.7%	16.9%	-7.8%	6.1%	1.0%	9.3%	10.3%	-5.5%	77.4%	5.3%
VNQ	REITs	-39.4%	28.0%	28.4%	8.6%	17.6%	2.3%	30.4%	2.4%	8.6%	4.9%	-6.0%	86.1%	5.8%
GLD	Gold	4.9%	24.0%	29.3%	9.6%	6.6%	-28.3%	-2.2%	-10.7%	8.0%	12.8%	-1.9%	47.0%	3.6%
DBC	Commodities	-31.8%	16.3%	11.9%	-2.6%	3.5%	-7.6%	-28.1%	-27.6%	18.6%	4.9%	-11.6%	-52.7%	-6.6%
	Highest Return	TLT	EEM	GLD	TLT	EEM	IWM	VNQ	PFF	IWM	EEM	BIL	SPY	SPY
	Lowest Return	EEM	TLT	TIP	EEM	TLT	GLD	DBC	DBC	TLT	TIP	EEM	DBC	DBC
	% of Asset Classes Positive	33%	93%	93%	60%	93%	33%	67%	33%	100%	100%	7%	87%	87%

If you look at the accompanying chart, which shows returns since 2008 in 15 different investment classes, you can see that 2016 and 2017 were extraordinary years; everything went up (as shown in green). 2018 was extraordinary in the opposite direction; everything except cash was in the red. Basically, if you were an investor, you lost money last year. But that also, of course, provides you with a chance to buy investments at discounted prices in the new year.

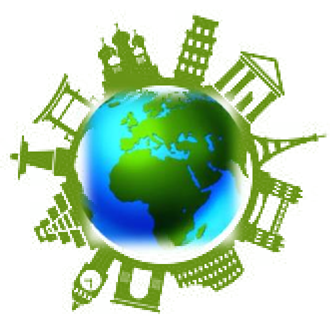
Many investment professionals had been expecting a bear market much sooner than this. Bear markets tend to occur about every 3.5 years, and there have been 32 of them since 1900. So far, the current decline of just over 20% pales in comparison with the 86% drop in the 1930s, or the 57% drop from 2007 to early 2009. But there is no reason to imagine that we are at the end of the current down cycle. With the government shutdown, reckless trade wars, a rapidly growing federal deficit, political uncertainty and the ever-looming possibility of a recession, investors are understandably nervous about the near-term future.

Longer-term, a recession may be the biggest concern. Most economists are reluctant to predict an economic downturn when unemployment is at record lows, but there were some warning signs in December. Five Federal Reserve regional factory indexes all dropped in unison in December, the first time that has happened since May 2016. There are increasing signs that many factories are suffering from the uncertainty around U.S. trade policy, including tariffs on imported steel, aluminum and about $250 billion of Chinese products. At the same time, consumer confidence has fallen to its lowest level since July, and a measure of the employment outlook experienced the biggest plunge in 41 years.

Nevertheless, by all measures, the U.S. economy is still growing, and nobody can predict whether the markets will recover in 2019 or experience a steeper decline. All we know is that, historically, all bear markets in history have been temporary phenomena, and that investors who rebalance their portfolios on a regular basis--that is, buying stocks when their percentages of the total have gone down--tend to do better than investors who don't rebalance, and especially better than the many who lose their nerve and sell in a panic during the downturn.

There is an old cartoon that shows the announcer telling the audience what really every stock market report ought to say: "Today, the investment markets provided another interesting day of meaningless white noise." The day-to-day rises and falls tell us nothing about the future, and the best prediction is that most predictions will turn out to be incorrect. We don't know what's coming, but we know it has always been a good strategy in the past to hang on tight when the roller coaster reaches a crest and takes us down a steep slope for a while.

Where the People Live



If you've ever been curious about how the world's population is distributed, but the raw numbers kind of bounce off your head, then perhaps a visual representation will bring home where the people are. A new project, called ThePuddin (https://pudding.cool/2018/10/city_3d/)

lets you look at a global map, all at once or up close, and see needles whose height and number represent the population in any particular area. For instance, if you look at tiny Bangladesh, and see the huge number of tall needles all over the country, you can see how it could have a larger population than Russia (which, as the map shows, has many fewer high-density population areas). You can see enormous population centers emerging in southern China, much *MUCH* lower population concentrations in Europe, Africa, North and South America—and how the area west of the Mississippi before you get to the U.S. West Coast is practically unpopulated.

You can go to the site and zoom in and zoom out, looking for the county you grew up in, and see the population change between 1990 and today. (Orange bars represent declines; green ones represent growth.) You can see that certain cities, like Cincinnati, OH and St. Louis, Mo—and areas (like most of Russia)—are in serious population decline.

Why is this important? Growth in a country's GDP is a function of population growth and increases in worker productivity. The countries with more people will inevitably take their place among the largest economies in the world. But even if you aren't looking at the map in purely economic terms, the data is interesting, and very interestingly presented.

Fast Impressions

You only have five seconds to make a good first impression, right? Or maybe it's 10 seconds, or 13.

A study of 2,000 Americans commissioned by Dollar Shave Club (you might consider the source), the actual time it takes to make a first impression is ***actually 27 seconds***, and often it is made before any words are exchanged.

What are the cues that people pick up on before you speak? Whether or not you seem to smile sincerely, whether you make eye contact, and whether you smell nice were among the most important cues that the respondents reported. After you DO speak, people notice whether you're well-spoken, hold conversation well, and are a good listener. And 83% of the people in the survey said that they tend to feel more positively about someone who seems confident.

They said that you can make a negative impression if you smell bad, if you act in an arrogant manner and if you dress poorly. Chances are few of us deliberately do these things, but it's worth considering how we present in those first few seconds of human contact with someone who might become a friend or advocate.

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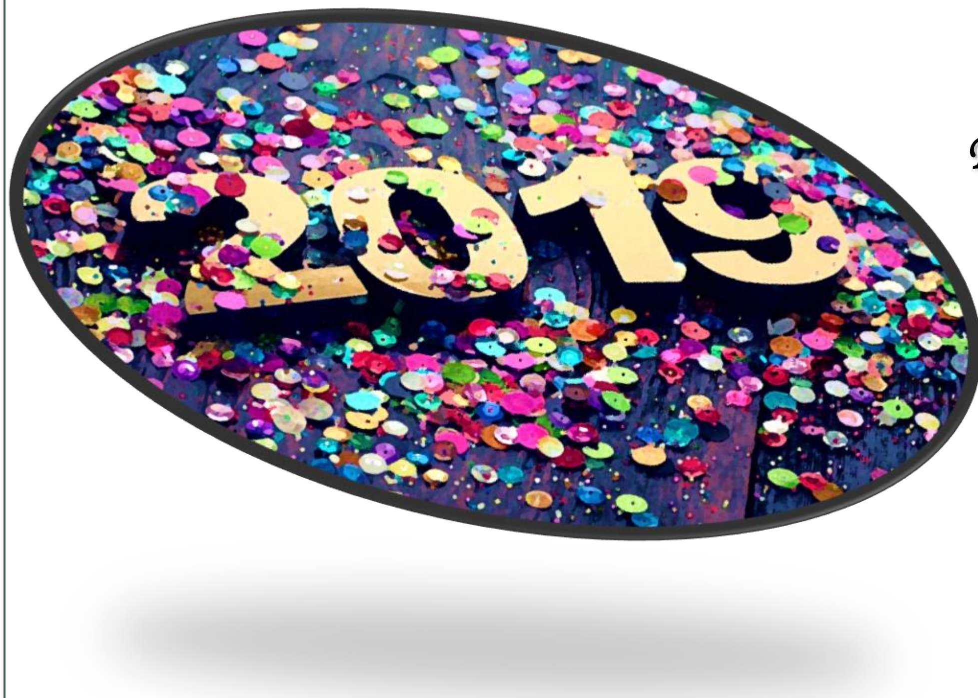

All of us at Demming Financial Services Corp. would like to wish you and your family a wonderful New Year!