# 1st QUARTER 2019

Investments in securities do not offer a fix rate of return. Principal yield and/or share price will fluctuate with changes in market conditions and, when sold or rendered, you may receive more or less than originally invested. No system of financial planning strategy can guarantee future results. Investors cannot directly invest in indices. Past performance does not guarantee future results.

ROCKPORT WEALTH ADVISORS
WWW.ROCKPORTWEALTH.COM
PHONE: 216-226-4560

As of the end of the first quarter all models are operating at the risk (reduced) adjusted levels we set at the end of January 2019. After a very difficult 4th quarter 2018 in which the S&P 500 dropped roughly 13 percent, we took advantage of a very nice bounce back in January to reduce risk just as we had the previous January. For the quarter the S&P 500 was up roughly 13% and as bleak as things looked at year-end 2018, it seems now as if the market is back in the mode of seeing no wrong. Keep in mind, that things can change quickly as we saw last year.

One significant change this year vs last is that portfolios are getting help from the bond market. Bonds were down to flat last year due to the interest rate increases. This year with the Fed staying out of the way Bonds have performed nicely thus far.

Our indicators at this point are showing signs of a slowing economy. Interestingly, there were very few signs of this in the 4th quarter last year while the market was going down. In fact, signs of a slowdown are fairly widespread at this point (GDP is being revised down, the housing market is slowing noticeably, and retail sales have slowed significantly month over month to name a few) so we believe this warrants a more cautionary positioning. It appears to us that the market is being bolstered by a continued hope of a good resolution over the China trade deal and the Federal Reserve's recent commentary to not increase interest rates anymore.

Speaking of the Fed, there is now approximately a 30-40 percent chance of an interest rate cut sometime this year. This is a drastic change from just a few months ago where there was an 80% plus chance of further rate increases. Clearly the Fed is noticing the slowing economic data and is ready to react accordingly. The problem is that the Fed has a history of reacting too late, so we will need to keep close eye on the data points moving forward and see how things unfold. It's not a question of if we will have a recession, it is a question of when (by the way we doubt it would be this year.) These are not unavoidable events. The best we can do is be prepared for them as evidence becomes more clear. Historically stock markets tend to make their biggest moves down just prior to or just as a recession is starting. Hence, our focus on economy.

**Don't check your account balances daily and your blood pressure once per year! Constant updates make investing more emotional than it needs to be.**

As always we will caution against watching a lot of financial television. We found it humorous that on March 8th it took only a 2.3% drop in the S&P 500 (over multiple days and after significant gains for the year) for the headlines to come out about markets under pressure! Really? Cheerleaders on the way up and doomsayers on the way down. Great help to all of us!

Going forward we will continue to monitor things and adjust accordingly. Short term the market may in fact continue to drift higher , but there are still 3 quarters of the year remaining and in our estimation Risks remain high.

**The Dow Jones Industrial Average is a price weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJI*A was invented by Charles Dow back in 1896.*

**The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.*

**Fairview Park Location**
22730 Fairview Center Dr., #150
Fairview Park, OH 44126

**Lakewood Location**
14650 Detroit Avenue, #120
Lakewood, OH 44107

**Rockport Wealth Advisors**
Joe Kovach, CFP®,AIF®
Ted Calabrese CLU®,AIF®
Adam Stalnaker, AIF®
Investment Advisor Representative
*Registered Representative *

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