GAMBLE JONES | CAPITAL MANAGEMENT
A Division of Gamble Jones Investment Counsel

January 1, 2020

The stock market's strong performance in 2019 capped a great decade for investors. The S&P 500 had only one down year, in 2018, and it had double-digit years seven times, including three years when the returns exceeded 20%. The returns are even more remarkable when you think back to what was happening ten years ago. The old Wall Street adage proved accurate: It paid to be greedy when others were fearful.

Some of the most significant events for financial markets this year occurred at the Federal Reserve Board. In December of 2018, the Fed was "taking away the punch bowl," as former Federal Reserve Chairman William McChesney Martin called it, by removing fiscal stimulus from the economy. The Fed had raised interest rates four times in 2018 and it expected two more increases in 2019 and a third in 2020. Raising interest rates takes money out of the economy, while lowering interest rates adds money to the economy. Stocks started their 2019 rally when the Fed said it would not raise interest rates in 2019, and then climbed even higher when the Fed lowered interest rates in July, September, and October.

Similarly, at the end of 2018, the Fed was taking money out of the economy by steadily reducing the $4 trillion portfolio of fixed income asset that it bought to help the economy during the Great Recession. The Fed takes money out of the economy when it sells fixed income assets, and it adds money to the economy when it buys fixed income assets. In a turnaround that resembled its interest rate policy reversal, the Fed stopped shrinking its balance sheet in July and started buying assets in September.

These two monetary policy changes supported the economy and shielded it from a trade war with China that reduced business investment, harmed exports, and hurt the manufacturing sector. As a general rule, the stock market does not like uncertainty, and corporate executives have urged the administration to end the uncertainty surrounding trade policy. Further, global economic growth has slowed, and negative interest rates are prevalent in many developed countries.

Looking ahead to 2020, we expect more modest returns. The Fed expects to keep interest rates steady and add liquidity to capital markets, if necessary, by increasing its balance sheet. We foresee moderate economic growth translating into moderate corporate earnings growth, and we will gradually have more clarity on the presidential election. It is too early to make an election prediction, but the two political parties have different priorities and objectives, and the outcome will impact the economy and financial markets.

The second half of the above-mentioned Wall Street adage says that it also pays to be cautious when others are greedy. We agree, and we recommend that investors temper their expectations for future

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returns. Our client's portfolios are cautiously invested in companies with strong balance sheets, a history of earnings growth, and forward-looking leadership. We are confident that prudent investments in such companies will do well over time.

On a personal note I would like to thank our partner Dave Davis, who retired at the end of 2019, for twenty years of service to Gamble Jones and our clients. Please join me in wishing him well in a well-earned, happy retirement.

All of us at Gamble Jones wish you and your family a happy, healthy, and prosperous new year.

Sincerely,

Alison J. Gamble

Alison Gamble, President
Gamble Jones Capital Management

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