BH | Beech Hill Advisors

December 2018

Dear Clients,

The equity market declines in the final quarter of 2018 eroded previous portfolio gains and has left investors in most every asset class with negative returns for the year. Our portfolios were not immune. Peaking in mid-September, markets were subject to a rapid correction, defined as a decline of 10-20%, dropping approximately 14% into year-end; historically the worst quarter since the financial meltdown back in 2008. The S&P 500 finished the year with a negative price decline of approximately 6.2% with our portfolios more or less in line, depending upon risk and return objectives. We are grateful 2018 is over.

As we have discussed in past intra quarterly commentaries, we have remained constructive but more cautious on expected investment returns. The markets have all but priced in a recession without the corresponding data as the fundamental backdrop remains positive. Large equity market outflows and shrinking bond yields illustrate the sentiment. Conversely, bear market indicators such as negative GDP growth, declining corporate earnings, and lofty valuations are not present in the aggregate or in near term forecasts. The usual suspects, trade and tariff conflicts, impending higher interest rates, reduced central bank driven liquidity and ongoing partisan political rancor remain in the forefront and continue to throttle investor optimism.

Strategically, we remain consistent and have held course throughout this period of extended volatility. We continue to believe investors will be rewarded for continued exposure and as previously detailed normal corrections average full recoveries within six months and rally within a year. We are cautious but optimistic this cycle will once again repeat itself. We do, however, continuously monitor the aforementioned data points as well as others and will reduce risk accordingly. Positive future catalysts would include continued improvements in China trade talks, a less rigidly hawkish Fed and continued favorable corporate quarterly earnings reports and guidance beginning in the next few weeks.

Tactically, we continue to upgrade our portfolio holdings, adding companies that were previously expensive now at much more attractive levels, realizing gains as price targets are achieved and swapping out underperformers. We continue to favor the technology, healthcare and financial sectors as they provide favorable revenue and earnings growth profiles. Mathematically, as each day passes, we are closer to the end of the current growth cycle, however, we do believe we have further to go in this recovery and investor patience will be rewarded.

As always, please do not hesitate to call if you have any questions. A Happy and Prosperous New Year to all!

Best regards,
Beech Hill Advisors