HALLETT ADVISORS NEWSLETTER

What is a Recession?
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Recessions are painful, but normal, and it's important to remember they don't last forever. Learn more about recessions in the informative article.

Once More: Three Keys to Investment Success (Page 4)

The markets ended 2018 on a tough note, but 2019 brings renewed promise. Make the most of 2019 by focusing on these three keys to investment success: diversify, educate yourself, and hone in on your most important goals. Read more about these three keys.

G*R*A*T*I*T*U*D*E
Makes sense of our past,
Brings peace for today,
And creates a vision for tomorrow
-*Melody Beattie*

For many of us in the Great Pacific Northwest, the unusual cold and exceptional amounts of snowfall over the past few weeks, made the normally routine tasks of going to work, running errands, and regular activities challenging if not impossible. What we often took for granted as a routine part of each day became something we miss. For others, the unscheduled time off served as an opportunity to spend time with family, read a book, build a snowman or enjoy the quiet solitude.

When things slowly return to "normal", we are thankful for roads that are clear, neighbors who work night and day to keep our lights on, our grocery shelves stocked, and teachers at reopened schools who care for our children and grandchildren. Despite how inconvenienced we may have been, we know things could have been worse, and we are reminded that in much of the World, things usually are.

Every day brings unsettling news and at times a sense of helplessness and perhaps despair; the feeling that no one has ever faced what we face now. *This time it really is different!*

For some cultures, the number seven has a special meaning. It represents an opportunity to honor the three generations which came before, to serve and love those with us now, and to make our community even better for the three generations to come. Applying this wisdom keeps us focused on what matters so the problems of today melt like the Winter snow, transforming into the promise of Spring with hope for tomorrow and gratitude for this day.

Thank you for the opportunity to serve you.

What is a Recession?

Economic recessions, while widely dreaded, are about as commonplace as hairline recessions (also widely dreaded). But unlike receding hairlines, receding economies eventually return to growth. Loosely defined as a significant decrease in economic activity that lasts for more than six months, recessions are simply a normal part of the business cycle.

According to the National Bureau of Economic Research, a recession officially begins after two consecutive quarters of negative real (inflation-adjusted) gross domestic product (GDP) readings—which measure the value of all finished goods and services produced in a country.

But many experts also say that recessions can start under the radar, between quarterly GDP reports. In order to determine whether the economy is headed for or already in a recession, economists look to two types of data: leading and lagging indicators.

Leading indicators represent areas of the economy that typically change course, with either accelerating or decelerating growth, before the majority of the economy begins to follow. These indicators are thought to foreshadow significant impending changes in the economy. Examples of leading indicators include the U.S. Department of Labor's jobless claims report, the Conference Board's consumer confidence index and the Institute for Supply Management's purchasing managers' index.

Lagging indicators are areas of the economy that tend to change course only after the majority of the economy has started moving in a particular direction. Examples of lagging indicators include the Federal Reserve's benchmark interest rate, the U.S. Department of Labor's consumer price index, and the U.S. Department of Commerce Bureau of Economic Analysis' gross domestic product and trade-balance data.

Quick Tip:

- A recession is loosely defined as a significant decrease in economic activity that lasts for more than six months.

- Recessions occur during the contraction phase of the business cycle and are usually caused by higher-than-necessary inflation.

- Bear markets (or declines of 20% or more in a broad stock market index such as the S&P 500 Index) typically accompany recessions.

When and Why Do Recessions Happen?

In the U.S., a full business cycle runs for an average of 4.7 years and consists of four distinct phases: expansion, peak, contraction and trough.

Recessions occur during the contraction phase of the business cycle. There have been 14 recessions in the U.S. economy since 1929 (Exhibit 1). The average recession lasts for about 18 months—as 2007's Great Recession, the most recent one at the time of this writing, did.

Most economists believe that higher-than-necessary inflation is the primary cause of recession. As inflation rises, consumers generally reduce their spending in favor of saving money. A downshift in consumer spending, which drives over two-thirds of the economy, can have a ripple effect on businesses. When consumer demand dwindles, industrial production follows suit, leading to layoffs. Income falls, unemployment spikes and the economy enters a contraction phase.

Exhibit 1: U.S. Recessions Since 1929

Recession	GDP Contraction	Duration	Time Until Next Recession
August 1929–March 1933	-26.7%	42 months	50 months
May 1937–June 1938	-18.2%	13 months	80 months
February 1945–October 1945	-12.7%	8 months	37 months
November 1948–October 1949	-1.7%	11 months	45 months
July 1953–May 1954	-2.6%	10 months	39 months
August 1957–April 1958	-3.7%	8 months	24 months
April 1960–February 1961	-1.6%	10 months	106 months
December 1969–November 1970	-0.6%	11 months	36 months
November 1973–March 1975	-3.2%	16 months	58 months
January 1980–July 1980	-2.2%	6 months	12 months
July 1981–November 1982	-2.7%	16 months	92 months
July 1990–March 1991	-1.4%	8 months	120 months
March 2001–November 2001	-0.3%	8 months	73 months
December 2007–June 2009	-4.3%	18 months	???

Source: National Bureau of Economic Research

In addition, unexpected shocks, such as banking crises or a significant jump in oil prices, may send the economy into a recession. The deflation of an economic bubble—which is caused by a rapid escalation of asset prices followed by a contraction—may also lead to a recession.

Tough Times Don’t Last

Recessions are a painful, but normal, part of the business cycle. Bear markets—declines of at least 20% in a broad stock market index such as the S&P 500 Index—typically accompany recessions (but not all bear markets are accompanied by recessions).

In general, selling out of stocks when a recession begins runs counter to one of the basic premises of investing, which is to buy low and sell high. Many investors who pulled out of stocks during the Great Recession regretted it later—not just because of the loss they incurred by selling at lower prices, but also because many missed out on the rebound once the market began to recover.

Important Information

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice. This information is for educational purposes only and should not be interpreted as legal opinion or advice.

Once More: Three Keys to Investment Success

Heavyweight boxer Mike Tyson famously said, "Everyone has a plan until they are punched in the mouth." While he wasn't talking about investing, we can easily apply it to that topic as global stock markets surely punched investors in the mouth in the latter part of 2018.

Despite the punch in the mouth, you as an investor should be commended and congratulated. We know the market's ups-and-downs can be emotionally taxing and our advice to stay the course may seem trite, but time and time again, staying focused on your plan worked.

With the recovery from last year's decline well underway, we thought it would be helpful to revisit three key aspects of your wealth management plan as a reminder of why we do what we do.

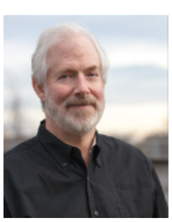
First off, the foundation of your investment plan is diversification. A lot of time, energy and resources are allocated to researching and selecting asset classes and funds that historical evidence has shown to benefit investors in the long run. We know that these strategies won't pan out every day, but the more time we give them, the greater the opportunity for them to add value. We also don't place all our faith in one asset class or strategy to deliver our potential investment success. We allocate between cash, bonds, and stocks of some of the globe's best companies. And, the stocks we invest in come in all sizes and styles.

The second part of your plan is education. Our minds might easily latch on to an elegant explanation of what is currently driving markets up or down, or our fight-or-flight instincts may kick in at the wrong time leading to an investment decision we may regret. This is why we feel it is beneficial to provide historical perspective and balance to what we hear on the radio and from the talking heads. And, this is what we attempt to accomplish with our one-on-one meetings and from the articles and communications we regularly send you.

The final, and most powerful, part of your plan is our focus on what is important to you: Your Goals. When investors ask us to give them the best performing portfolio we have, we ask, "Why?" The best-performing portfolio changes all the time, and we would rather give our clients the best portfolio for them. That is one that considers your ability and willingness to take risk and your life goals.

Where markets go from here in 2019 is really anybody's guess, but your plan should only change when your goals change. If you changed jobs, want to see if you can retire earlier, plan on moving, or have a child preparing for college, please reach out. We'd love to hear about these and any other changes and see if your current plan needs to be updated.

Until we talk again, we wish you an abundance of happiness and prosperity in 2019.



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