NORTH STAR
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MARKET UPDATE
QUARTER 4, 2018

Despite many positive tailwinds such as the Tax Cuts and Jobs Act of 2017, wage growth, low unemployment and continued corporate earnings growth, 2018 was a challenging year for investors. The U.S. economy, while still expanding, is slowing and questions remain regarding monetary policy and the degree of potential interest rate increases planned by the Federal Reserve in 2019. Add to this the continued trade war between the U.S. and China, the world's top two economies, there were also ample headwinds present throughout the year. With this, 2018 was a volatile year with downside volatility increasing sharply toward the year's end.

For the quarter, domestic large company stocks (S&P 500) decreased 13.52% while small company stocks (Russell 2000) decreased 20.20%, eliminating gains made earlier in 2018. For the year the S&P 500 declined 4.38% while the Russell 2000 declined 11.01%. [i]

The U.S. dollar appreciated modestly against most major foreign currencies during the quarter and rose 4.3% in 2018 as measured by the WSJ Dollar Index.[ii] A decrease in value of the U.S. dollar enhances returns when investing in foreign securities while an increase in the dollar's value reduces returns for U.S. investors holding foreign securities. For the quarter the MSCI EAFE Index (in U.S. dollars) decreased 12.54% while the MSCI EAFE Index (in local currency) decreased 12.20%. [i]

The yield on 10-year Treasury bonds decreased from a seven-year high of 3.24% on November 18 to 2.69% by quarter end as the demand for Treasuries increased.[iii] With demand increasing, inflation remaining moderate, and higher short-term interest rates, the gap between two and ten-year Treasury yields continue to flatten. For the quarter, the Barclays U.S. Aggregate Bond Index increased 1.64% and finished the year with a modest gain of 0.01%. [i]

On December 19, the Federal Reserve's Open Market Committee raised the range for the federal funds rate to a range of 2.25% to 2.5% percent, the fourth increase of 0.25% during the year. Looking forward, the Fed is targeting two quarter-point increases in 2019, a reduction from their previous target of three rate increases following their meeting in September.[ii]

Nobody knows for sure what the Fed will do in 2019, but it stands to reason that they will continue to assess what is appropriate given market and economic conditions. Should the Fed increase short-term interest rates two times in 2019, that would leave the target range for the federal funds rate between 2.75% to 3.0%, a level that can certainly be supported by current levels of inflation.

Taking the long view, we continue to believe that globally diversified stock and bond portfolios and disciplined investment strategies can continue to provide opportunities for those investors looking for growth.

I welcome your input and as always, should you have any questions or concerns, or if there is a change in your investment time horizon or financial circumstances, please contact me at your convenience.

Written by North Star Resource Group.

AVERAGE ANNUAL RETURNS FOR PERIODS ENDING 12/31/2018						
INDEX	4TH Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
S&P 500	-13.52%	-4.38%	-4.38%	9.26%	8.49%	13.12%
Russell 2000	-20.20%	-11.01%	-11.01%	7.36%	4.41%	11.97%
MSCI EAFE (U.S. dollars)	-12.54%	-13.79%	-13.79%	2.87%	0.53%	6.32%
Barclays US Aggregate Bond	1.64%	0.01%	0.01%	2.06%	2.52%	3.48%
BENCHMARK COMPOSITES	4TH Q	YTD	1 YR	3 YRS	5 YRS	10 YRS
Aggressive Growth	-14.81%	-8.51%	-8.51%	7.28%	5.45%	11.31%
Growth	-11.67%	-6.80%	-6.80%	6.30%	4.93%	9.90%
Conservative Growth	-8.08%	-4.81%	-4.81%	5.33%	4.52%	8.40%
Income and Growth	-4.77%	-3.20%	-3.20%	4.22%	3.85%	6.76%
Income	-1.43%	-1.14%	-1.14%	3.34%	3.49%	5.31%

Source: Morningstar Direct

You cannot invest directly in an index. Indices do not have expenses, which would reduce returns. Past performance is not indicative of future results. The S&P 500 Index measures the performance of large capitalization U.S stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the Index's performance directly proportional to the company's value. The Russell 2000 Index measures the total return of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ. Investments in smaller company and micro-cap stocks generally carry a higher level of volatility and risk over the short term. The MSCI EAFE Index is the Morgan Stanley Capital International Index and is designed to measure the total return of the developed stock markets of Europe, Australia and the Far East. Investment risks associated with international investing, in addition to other risks, include currency fluctuations, political and economic instability and differences in accounting standards when investing in foreign markets. The Wall Street Journal Dollar Index measures the value of the US Dollar against 16 foreign currencies. The Barclays US Aggregate Bond Index is a market-weighted index that includes U.S. government, corporate, and mortgage-backed securities, rated investment grade or higher, with maturities up to 10 years. Investments in fixed income securities are subject to interest rate risk and, as such, the net asset value of bond and real estate funds will fall as interest rates rise. The Benchmark Composite returns are a weighted average of index data comprised in the following manner. Aggressive Growth is 45% S&P 500, 25% Russell 2000 and 30% MSCI EAFE. Growth is 35% S&P 500, 20% Russell 2000, 25% MSCI EAFE and 20% Barclays US Aggregate Bond. Conservative Growth is 30% S&P 500, 10% Russell 2000, 20% MSCI EAFE and 40% Barclays US Aggregate Bond. Income and Growth is 20% S&P 500, 5% Russell 2000, 15% MSCI EAFE and 60% Barclays US Aggregate Bond. Income is 15% S&P 500, 5% MSCI EAFE and 80% Barclays US Aggregate Bond.

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 regarding any funds or stocks in particular, nor should it be construed as a recommendation to purchase or sell a security. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. Diversification is a method used to manage risk. It does not guarantee against loss. 2366260/ DOFU 1-2019

[i] Morningstar Direct
[ii] The Wall Street Journal
[iii] The Federal Reserve Board