jhh wealth advisory
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# 2020 Outlook

**JHH Wealth, LLC**

*February 2020 Letter to Clients*

## 2019 Model Recap

During December 2018, the markets received a shock and ultimately saw a 15% decline. This shock came at a time when the current bull market was breaking records for the longest bull run in history. Many analysts were predicting that a recession was imminent, and the December 2018 shock was heralded by these analysts as the start of a recession. As a result, many portfolio managers took their models in a more defensive direction.

Despite this noise, the strategic viewpoint of JHH Wealth (JHH) was to position models to take advantage of continued market growth. The economy was still exhibiting many positive indicators. Furthermore, the federal reserve was expected to make further interest cuts in 2019 (lowering interest rates has historically caused the stock market to rise). JHH predicted that the markets still had room to rise and even hit all-time highs in 2019. We now know this is exactly what happened.

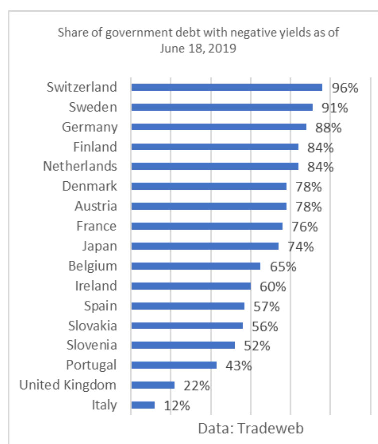
Model changes during the January 2019 rebalance include:

- JHH increased exposure to domestic equities. JHH clients benefited from this move, seeing as the SP 500 rebounded from the December 2018 volatility and ended up returning 30.43% in 2019.

- On the fixed income side, JHH took notice of a phenomenon happening overseas:

## Opportunity in Bond Crunch

Many countries were offering bonds with negative yields. This is unacceptable for many investors seeking returns. JHH predicted that investors in developed European countries would look elsewhere for international bonds as part of a diversified portfolio. An emerging market bond ETF was added to the JHH models to take advantage of this prediction. This ETF has seen above average growth and is consistently hitting 52-week highs.



## Energy Drag

JHH invested in an energy sector ETF. Energy ETF's are heavily correlated with the price of oil. After a two-year price war between OPEC and the USA that drove down prices, JHH predicted that oil would rebound.


As indicated by the chart to the right, oil prices had periods of strength but ultimately an upward trend has not materialized. Even though this position has not positively added to return, it is only a 3 to 4% position and we continue to hold it as a diversifier in the portfolio in case inflation and the price of oil begins to rise again.

## JHH Strong 2019

In conclusion, the JHH models had a strong 2019 due to changes made at the start of the year. Fully diversified portfolios will have losers (energy ETF), but the goal of any successful portfolio manager is to offset losers by having more winners. JHH believes we achieved this goal in 2019. and will work hard on your behalf to continue to provide value in 2020.

## 2020 Look Ahead

The beginning of 2020 has again seen volatility. For example, the coronavirus outbreak has been a drag on the markets. However, studying stock market history shows this short-term volatility is likely not the start of a longer downward trend. The year following a large run up in the market is typically followed by another 'up' year. The year after extraordinary runups sees markets return another 10 to 12%. 2019 saw an extraordinary runup, so if history holds true, the markets stand to have another positive year in 2020. However, our strategic viewpoint is not the same as in January 2019 when JHH increased exposure to risky assets (such as stocks).

Although history tells us that 2020 will see another rise in the markets, there are several contributing factors that may cause 2020 to be a historical outlier. For example, 2020 is unique in that we are currently in a record-breaking bull run. We are in an election year and election years are typically more volatile. Valuations are high. All bull runs eventually come to an end, so any of these (or a combination of) contributing factors may snowball into a large sell off (correction), resulting in a 20-30% drop in the markets.

JHH predicts that 2020 will be another positive year for the stock markets. However, due to the unique contributing factors, JHH is making the decision to begin the process of becoming more defensive. Clients will see the following changes in their accounts as part of the February model update:

- **Diversification is a primary goal of the models.** This includes exposure to all sizes and life stages of companies. From small cap to large cap, and from growth (typically early stage companies) to value (typically more mature) companies. History has shown us that growth and small cap companies outperform during periods of economic growth, while large cap and value companies outperform during down periods. As a result, JHH is making a slight decrease in exposure to small cap growth and adding to larger cap value companies to provide more protection against a possible correction.

- **Fixed income diversification**. On the fixed income side, diversification includes exposure to both corporate and government bonds with differing maturity dates. Bonds with shorter maturity dates tend to be less volatile. The portfolios had included exposure to a 2020 bond fund that is set to mature. This bond fund will be replaced with another short-term bond ETF, further providing defensive exposure while adding more yield.

On behalf of JHH Wealth, thank you for your continued business and we wish everyone a prosperous 2020.

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