

### Market Comments January 2019

*We wish the very best for the New Year to all our clients and friends!*

### January Recovery

The markets gave us a wild ride at the end of 2018 with the worst December performance since the Great Depression<sup>1</sup>. Fears from December have mitigated causing a string of positive stock market returns with the S&P 500 up 10% from the Christmas Eve low<sup>1</sup>. Patience for holding our positions through the height of December fears has been rewarded. As we reported in our December 28th note “A Volatile December,” no one can accurately predict the stock market over days or weeks but history has shown that long-term investors will earn superior returns.

Though we can take some solace in January’s recovery, some of the underlying concerns that drove December’s sell off still are not resolved. The trade dispute with China combined with our dysfunctional political system in Washington may reemerge and could cause further stock market declines. On the positive side, economic fundamentals remain strong, company profits continue to be positive and the FED has agreed to be measured with further tightening.

The United States and China, the world’s two biggest economies, depend on each other for trade. From the US perspective, negotiating more favorable trade terms, improving access to Chinese markets for US companies and enforcing compliance with intellectual property rights within China are all important goals for a new trade agreement. Making progress on these objectives will benefit our economy and US companies. As for China, maintaining their trend of economic growth provides political stability in a country that needs to manage a population of 1.4 billion people. 2018 GDP growth in China is estimated at 6.7%, roughly in line with growth over the past couple of years<sup>2</sup>. This growth has allowed for improving living standards fostering stability over the past decade. The stakes are high. If the current trade dispute turns into a trade war it will impact growth in both countries, likely to drive a slow-down in all of South East Asia and could lead to a global recession. This extrapolation of cause and effect is what causes stock markets to fear the current trade dispute.

Another December fear, that the FED would continue to increase interest rates seems to have dissipated. Recent comments by FED Chairman Jerome Powell indicated that the FED will

have a flexible policy on further interest rate hikes and unwinding the balance sheet. This was a huge relief to stock markets in the waning days of 2018 and for now has become a “back burner” issue.

The first few weeks of our divided Congress in Washington does not seem to be working out well as the Federal Government remains closed because of a dispute between Congress and the President. Surprisingly, the stock market does not seem troubled by the government shutdown as it has been marching forward through this same period. The issue of instability in our government is not over and, in our opinion, could become a major factor for markets at any time.

Supporting the markets, the US economy remains very strong as we continue to put people to work and see improving wages. Unemployment is at 3.9%, we added 312,000 jobs in December and wages are increasing<sup>3</sup>. We pay keen attention to labor statistics because consumer spending represents about two thirds of our total economy. More people employed, earning good wages and spending money will drive our economy forward.

Company profits, another component of our economy, are also strong. Third quarter corporate profits were up 3.5% continuing a trend of rising profits since 2009<sup>4</sup>. The earnings per share of the S&P 500 of \$41 per share is at an all-time high<sup>5</sup>. As companies start their quarterly reporting season, expectations are that profits will continue to grow.

There are always worries and potential pitfalls that will cause market downturns. With a strong consumer, good business profits and a FED that is thoughtful about further rate increases, the underpinnings are good for 2019. Though as we saw in December, we could be quickly derailed by a trade war, political disruption or other major international event.

### **Your Life Goals are more stable than markets**

The stock market is interesting. Your personal financial goals are important. It's easy for us to spend our time thinking about the “interesting” and lose sight of the “important.” I suspect that as we envision our ideal retirement, the picture has not changed much over these past few months. Volatility of the stock market is, and should be, disconnected from how we plan to live our lives in the future. We can help you meet your life goals by working together on a Financial Plan and aligning your portfolio to the plan. Financial Planning is one of the services that we are pleased to offer to all of our clients and many find it a valuable aspect of how we work together. If you have been thinking about this for a while but have not acted on it... make it a New year's resolution and start today.

Please think of us if you have a family member, friend or coworker who would benefit from working with us. We are happy to have a call or meeting with anyone who might like a second opinion on their current financial situation. There is no obligation to a referral and we so appreciate the recommendation. At Lucas Capital we are committed to help you with all of your financial needs. Please call to let us know how we can help.

With warm regards,

***Ralf, Rob, Brett, Bruce, and Kathleen***

*Be sure to let us know if your family circumstances have changed in a way that could alter your investment profile and objectives. We welcome your questions or comments, or would be happy to review your financial situation or portfolio at your convenience.*

*A copy of Lucas Capital Management, LLC's ADV is always available upon request.*

*Sources:*

- 1. Federal Reserve Bank of St. Louis, Economic Research, historical data*
- 2. <https://tradingeconomics.com/china/gdp-growth-annual>*
- 3. <https://www.bls.gov/news.release/empsit.nr0.htm>*
- 4. <https://www.bea.gov/data/income-saving/corporate-profits>*
- 5. JP Morgan Guide to the Markets 12/31/2018, Corporate Profits*

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