FINANCIAL ADVISORS NETWORK, Inc.

4th Quarter Recap

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4th Quarter 2019 Recap

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As we look back and reflect on what was predicted by many to be a year of worry and concern, equity markets advanced heavily in 2019 and investors were rewarded. The final month of the year brought several new highs for both the S&P 500 and the Dow Jones Industrial Average (DJIA). In the fourth quarter of 2019, the S&P 500 rose over 9% and for the year it turned in its best annual performance since 2013. The DJIA also had a strong quarter rising 6.7% (RWBaird.com 1/1/2020).

If someone had told you on January 1st of 2019 that the year would start off with talk of a global economic recession that might take the U.S. economy down with it, add to that, the U.S. would be in a trade war with China and the President would get impeached, you might have wondered how much equity markets would retreat. Some felt that 2019 was going to be a challenging year for stocks with volatility taking center stage.

Well, there was no Bear Market in 2019, and for that matter, there wasn't even a correction. A correction, or 10% drawdown, isn't uncommon for the stock market. In a year that had no shortage of headwinds, the maximum pullback was less than 7%.

The continual advancement of equities has kept the longest bull market of all-time intact. Both the S&P 500 and the DJIA posted many new highs in 2019 and all throughout the fourth quarter. Optimism about the U.S. economy improved and investors also saw potential trade developments. During the fourth quarter, the U.S. reported that the economy grew just above 2% in the previous quarter, driven by healthy consumer spending.

Employment numbers continued to impress analysts with an average addition of 205,000 jobs per month in the fourth quarter. Unemployment closed the year under 3.5% with limited wage pressure.On a negative note, businesses were reluctant to invest in 2019 and manufacturingcontracted in December to its lowest level since 2009.

2019 ended on a high note for investors, unlike 2018, where just about everybody was questioning the stability and the possible end of the Bull Market. After this year of strong returns, analysts are still mostly bullish, but they are predicting modest gains for 2020.

MONEY RATES
(as posted in Barron's 12/30/2019)

	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	1.55%	2.36%
Bank Money Market -z	0.21%	0.22%
12-month Cert -z	0.73%	0.88%

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

Global Economic Fears

While the U.S. economy did not experience a recession in 2019, the global economy showed signs of weakness. Global growth for the year recorded its weakest pace since the global financial crisis a decade ago, reflecting common influences across countries and country-specific factors.

According to the International Money Fund (IMF), rising trade barriers and associated uncertainty weighed on business sentiment and activity globally. In some cases (advanced economies and China), these developments magnified the cyclical and structural slowdowns that were already under way.

Further pressures came from country-specific weakness in large emerging market economies such as Brazil, India, Mexico, and Russia. Worsening macroeconomic stress related to tighter financial conditions (Argentina), geopolitical tensions (Iran), and social unrest (Venezuela, Libya, Yemen) rounded out the difficult picture **(IMF.org 1/1/2020)**.

One of the more talked about international topics of quarter four was Brexit. While Brexit made headlines weekly during the quarter, the market shrugged off this issue. When Boris Johnson was elected Prime Minister, Britain's plans for Brexit became clearer. On December 20th, the United Kingdom's parliament voted 358 to 234 in favor of Prime Minister Boris Johnson's plan to leave the European Union on January 31. Brexit clarity is hopeful to have a positive effect on the U.K. economy, where investment expenditures in particular have been weak due to muted business confidence levels.

Central European banks have reacted aggressively to the weaker economic activity. To end the year, several banks, including the European Central Bank (ECB), cut interest rates and the ECB also restarted asset purchases.

A lackluster global economy and further slowdown can affect investors. In 2020, this is an area that needs to be monitored.

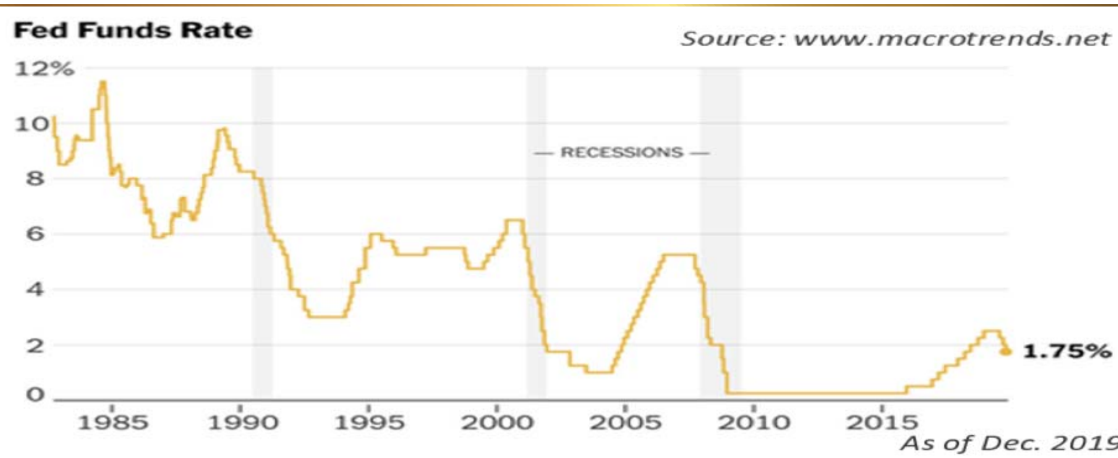
Interest Rates are Still Crucial

In 2019, many types of bonds have delivered some of their best returns in more than a decade. Bond prices rose because the Federal Reserve cut interest rates three times, after raising them in 2018 (bond prices rise when rates fall).

Following rate cuts in July, September and October, the Federal Reserve held interest rates steady at its December meeting at 1.50% - 1.75%. In a statement explaining the decision, the committee indicated that monetary policy is likely to stay where it is for an unspecified time, though officials will continue to monitor conditions as they develop. The decision to keep rates unchanged was unanimous, following several dissents in recent meetings. "The Committee will continue to monitor the implications of incoming information for the economic outlook, including global developments and muted inflation pressures, as it assesses the appropriate path of the target range for the federal funds rate," the committee stated **(CNBC.com 12/11/2019)**.

Key Points For Investors

1. Equity markets made new highs again this quarter.
2. The bull market is over a decade old and is the longest on record.
3. Global economic conditions continued to be concerning in the fourth quarter.
4. Interest rates remained unchanged at 1.50% - 1.75% in December.
5. Trade wars and political concerns can create market and investment uncertainty.
6. Many analysts are predicting modest growth for equities in 2020.
7. Investors should still proceed with caution in 2020.
8. Focus on your ***personal goals*** and call us with any concerns.



There was much talk earlier in the year about an inverted yield curve (which meant that short-term rates were higher than long-term ones). Headlines pointed to the fact that before the last 7 recessions, the 3-month to 10-year yield curve inverted and then the recession followed 4 to 21 months later. Currently, the yield curve is no longer inverted. Historians also remind us that this inversion also happened in 1966 and 1998 without a recession afterward.

Interest rates are still near all-time lows, but clarity with the direction of interest rates can be a positive for investors. **For 2020, interest rates will continue to be on the forefront of our "watch" list.**

Trade Wars and Political Concerns

The Trump administration continued the trade dispute with China during 2019, in an attempt to address practices, they said put U.S. companies at a disadvantage. After a year of struggle, in December 2019, the two sides agreed to pause and work on a trade agreement. As of the writing of this report, the two sides are on track to sign a "phase one" deal in early 2020. There is always the possibility of trade negotiations between the U.S. and China falling apart **(BusinessInsider.com 12/30/2019).**

The new year also brings a Presidential election in the United States. In December, Donald J. Trump became the third President to be impeached as the House of Representatives approved two articles of impeachment. The uncertainty around the timing of a Senate hearing and the U.S. political scene is concerning for investors. While the impeachment should not have any negative impacts on fiscal or monetary policy, any disruption of this magnitude can affect emotions and behaviors.

Also, as of the writing of this report, tensions with Iran were flaring. Politically speaking, there are still many unknowns to be attentive to.

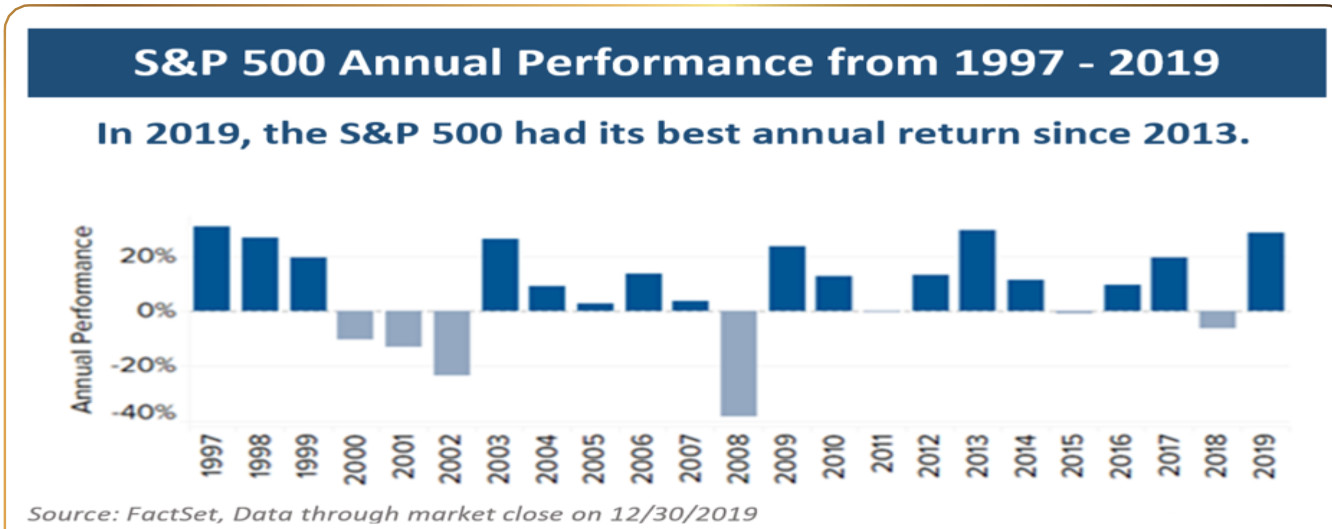
For 2020, we will continue to watch how political and geopolitical events unfold.

Where Are the Markets Headed?

Investors are still enjoying the longest bull market ever, but there are two directions of thought to consider. One is the fact that based on historical numbers, like price earnings, that equities continue to be overvalued and overpriced. The other thought process insists that we are still in a "**TINA**" market, meaning, **T**here **I**s **N**o **A**lternative to stocks. There are investors that look for growth and others that look for yield. With low to limited yield from fixed rates, some investors feel that there could be more upside in the current market. Equities are not cheap and even the savviest of investors need to have a watchful eye on risk. As financial professionals, we assist clients by providing ideas and suggestions based on their personal circumstances.

As seen on the chart of the S&P 500 performance from 1997 to 2019, in 16 of the 23 years the market ended the year with a positive return. However, those who took on significant equity exposure in 2007 or 1999 might not have fared well the following year. On the other side if an investor was scared after 2008 or 2002 and avoided equities, they might have missed a great opportunity to grow their portfolio. Currently, short-term interest rates and cash equivalent yields are still historically low. Investors seeking returns should consider owning equities. That could lead to volatility in 2020.

When creating a long-term plan, it can require you to avoid emotional decisions that may trigger you to make impulsive moves. **Our goal is to focus on each client's timeframes and goals.**



2020 Outlook

What a difference a year makes. In December of 2018, for 2019, analysts feared rising interest rates, an aging bull market, recession fears and trade wars. Equity markets proved these fears to be wrong, as they delivered record breaking highs and very positive results. Many analysts are being cautious with their 2020 forecasts. As we have already noted, they too feel interest rates are very low. They also acknowledge that there are both past and new risks for investors on the horizon. They maintain that stock valuations are currently challenging. That lead to a "more muted outlook for 2020", according to the 10 strategists Barron's surveyed. They conclude that for 2020, "the markets and the economy face an array of obstacles.' They still see continued gains ahead for the current bull market. They forecasted "an average rise of 4% for the S&P 500 in 2020. Add to that a roughly 2% dividend yield, and stocks could deliver a total return of about 6% next year" **(Barron's 12/19/2019).**

Even though she is looking for equity advancements, Abby Joseph Cohen, the Advisory Director and Senior Investment Strategist for Goldman Sachs warns investors by sharing, "I spend my time looking at what could go right and what could go wrong and there are a lot of more things on the what could go wrong list" **(Barron's 12/19/2019).**

The stock market still has room to run, says Stephen Auth, Chief Investment Officer of Federated Investors. He says, "much of the uncertainty that has been problematic for the economy has dropped away." He shares that with low interest rates and high corporate earnings, the S&P 500 still has room to run **(Seeking Alpha 1/9/2020).**

Geopolitical uncertainties and headlines from the upcoming U.S. elections to trade tensions between the U.S. and China might continue to grab an investors attention. **Once again in 2020, we are suggesting that when you see confusing times it is usually best to proceed with caution. With the start of a new year we think it could be helpful to repeat some of our strategies for investors to consider annually.**

Strategies for Investors

✓ **Is there a change in your financial goals or objectives?**

Investors should always put their primary focus on their own personal goals and objectives. When equity markets become volatile sometimes even the best investors become not just concerned, but unnerved. It's important to keep perspective when markets are volatile. It is very important that when markets when markets are volatile. It is very important that youunderstand your situation and your financial plan. Letting your emotions drive your decisions can be costly. Here are strategies that money managers consider when making decisions.

✓ **Has your risk tolerance changed?**

You should always attempt to match your investments with your risk tolerance. Equity markets should continue to move up and down. Even if your time horizons are long, you could see short-term downward movements in your portfolios. Each type of investment poses a certain level of risk and offers a level of potential reward. It's always wise to share with us what level of risk exposure you are comfortable with.

✓ **Are any of your time frames different?**

If you have a change in your time frames then contact us and we will be happy to discuss this with you.

✓ **Are you an investor or a speculator?**

In general, a main difference between speculating and investing is the amount of risk involved. Investors primarily attempt to generate a satisfactory return on their capital by taking on an average or below-average amount of risk.

Speculators are defined as those who are seeking to make abnormally high returns from stakes that can go one way or the other.

Some of the characteristics of investment and speculation could overlap each other, but it is helpful to understand the main differences separating these two terms. While all investments can include some speculation, not all speculations are necessarily investments. The objective of both is to earn profits, however, the methodology is different. There is nothing correct or incorrect in the approach, but it depends on the true objective of the individual and the measure of risk they are willing to bear.

Our goal is to work with clients to help identify ways to meet their objectives.

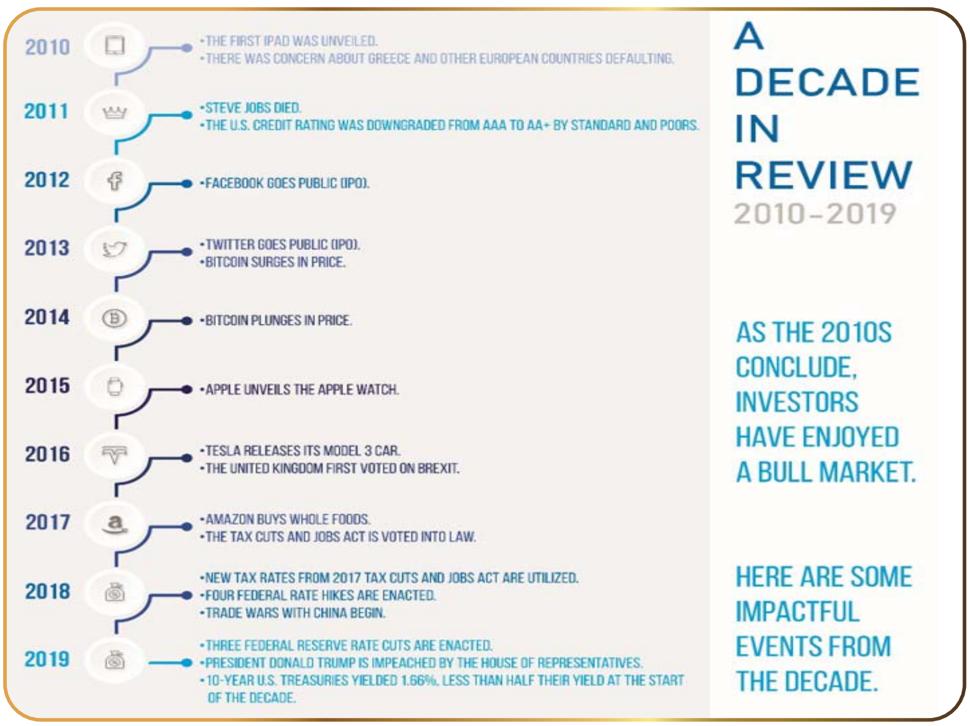
We Are Here For You!

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you would like to revisit your specific holdings or risk tolerance, please call our office or bring it up at our nextscheduled meeting. **If you ever have any concerns or questions, please contact us!**

We pride ourselves in offering:

- consistent and strong communication,
- a schedule of regular client meetings, and
- continuing education for every member of our team on the issues that affect our clients.

A skilled financial advisor can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs.



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Sources: Barron's, Businessinsider.com, IMF.org, CNBC.com, RWBaird.com, SeekingAlpha.com. Contents provided by the Academy of Preferred Financial Advisors, 2020.

FAN TEAM UPDATE

Winter 2019

The FAN Team has been busy working hard and having some fun too!

Here's what we've been up to lately...

Heading Up The Slopes in Beaver Creek, CO

FAN Team having fun at a Duck's game

Christmas Outing

FAN Team at New Client & Advocate Dinner

Celebrating Lexie's 12th Birthday

Macaela & Dane at a wedding in KC

Upcoming Events

Investments Seminar

The seminar will be held Wed, Feb 12 from 6:30-8:30pm in the conference facilities at Financial Advisors Network, Inc. located in Tustin at 1432 Edinger Ave, Suite 200.

This seminar will be presented by Rohan Nakrani, MBA, our in-house Portfolio Manager, who manages and designs our investment solutions at FAN. Rohan will cover a more in-depth look at investments, including: investor psychology, business cycles, investment types, and asset allocation.

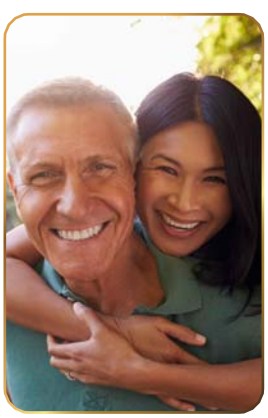
During this presentation, investments will be discussed, such as stock and bonds, which have various risks including loss of principal and may not be suitable for every investor.

Property Inheritance Seminar

Our strategic alliance, Nicole Newman of Newman Law Group, will provide important details on how to choose the right successor trustee. This seminar provides a great opportunity for you to plan for your loved ones. Nicole's specialty is guiding families on how to choose the right successor trustee, even in the most difficult circumstances. Family members and heirs welcome.

The seminar will be held Wed, Feb 26 from 6:30-8:30pm in the conference facilities at Financial Advisors Network, Inc. located in Tustin at 1432 Edinger Ave, Suite 200.

Nicole Y. Newman, Newman Law Group, and Financial Advisors Network, Inc. are separate entities. There is no obligation to use their services. The information to be discussed is not intended to be a substitute for specific legal advice. We suggest that you discuss your specific situation with a qualified legal advisor.



Social Security & Medicare Seminar

Curious about the effects of Social Security on your financial situation? You and your friends are invited to this informative education event. Learn about how Social Security may affect your individual position..

The seminar will be held Wed, Mar 4 from 6:30-8:30pm in the conference facilities at Financial Advisors Network located at 1432 Edinger, Suite 200 in Tustin.

Jeffrey Rodriguez is not affiliated with Financial Advisors Network, Inc.

For more information or if you would like to attend any of these complimentary events, please contact us at info@fanwmg.com or (714) 597-6510.

Don't Forget!

Come in for your Complimentary Financial Check-up.

We are happy to meet with you for a financial check-up, and will help you bridge your investments with your taxes. Make sure all the pieces of your finances are working together properly!

Contact Us

(714) 597-6510 or info@fanwmg.com

We would be happy to schedule a complimentary appointment.

FINANCIAL ADVISORS NETWORK, Inc.

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