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MARKET COMMENTARY – JANUARY 1, 2020

Taurus and His Horns.

A year ago today, we were at the tail end of a brief, intense marketplace tribulation. Despite nearly all positive fundamental signs at the time, the market had retreated aggressively for over three months, culminating in the worst returns ever on a Christmas Eve. Therefore, as 2019 began we investigated the strength of a bear's bite. (Get it? You know. Because a bear market was biting at the time…). You can check out the commentary archives on our website to see what we had to say back then.

Fast forward a year. 2019 ended, and these first few hours of trading in 2020 have begun, with a bull market charging in full force. In order to be insightful on both of these contrary animal spirits often found in the daily trading of financial instruments, we feel compelled to investigate the power inherent in a bull's charge and then compare it to that of a bear's bite.

For argument sake, take your run-of-the-mill 1,200-pound bull complete with curved, menacing horns. He's not the biggest bull in the pasture, but if any poor intruder saw him head down and stampeding, she might indeed find cause to run. Let us further assume our bull is running at just over 6 miles per hour and the tip of his horn is a rather blunt ½ inch. After performing a bit of calculations that might make our old physics professor proud, we determined that the blow to his prey would carry with it 3,800 psi.

Wow! That *sounds* big. But let's see how it fares with what we discovered a year ago. It turns out that the average human male chomps with about 150 psi. And the biggest polar bears can clamp down with 1,200 pounds of force per square inch.

So, a bull's punch carries three times the force of a bear's bite! We think this may be used as a nice metaphor for investing in the markets.

Certainly, when we are in the midst of a bear market, we may suffer real pain. However, seasoned investors among us know that future opportunities are being created – if we can only keep our wits and liquidity!

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But the greater forces of growth, expansion inherent in a bull market as our ally can greatly eclipse the pain of a bear. Consider, that with a proper incentive-based culture and economy after every bear market, the indices and overall wealth climb to higher heights. The bull's charge forever out-tugs the bear's bite.

And today, fundamentals remain sound. We'll learn more about revenue and earnings growth as 4Q numbers are reported in the coming weeks. But as it stands now, reasonable expectations call for continued expansion. Corporate margins remain in record territory. Inflation remains mostly subdued. Unemployment is low, with more jobs available than workers. The personal savings rate remains historically elevated (a good thing). Productivity changes are mildly positive. Interest rates spent 2019 dropping, thereby normalizing the shape of the yield curve. Trade policy seems to, at least, not be getting any worse. Banks and our financial system are on firmer footing than in the days leading up to the Great Recession of '08.

The one mildly troubling sign is the current valuation of big U.S. stocks, i.e. they are on the expensive side. Depending on how you slice the data, stocks today sell at about 20 times last year's earnings and about 18.5 times next year's. These are just a little elevated compared to the modern average of about 18. However, the current ratio is skewed positively by high-flying software valuations. So, opportunities remain for patient investors in small caps, value stocks, and international equities.

We are optimistic for 2020. But expect nothing like the stellar returns of '19. As such, throughout the year clients can expect us to remain vigilant and perhaps even right-size client risk profiles by layering in several lower risk alternatives along the way (e.g. bonds). Stay tuned.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

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