



Quarterly Newsletter

Q4 2018

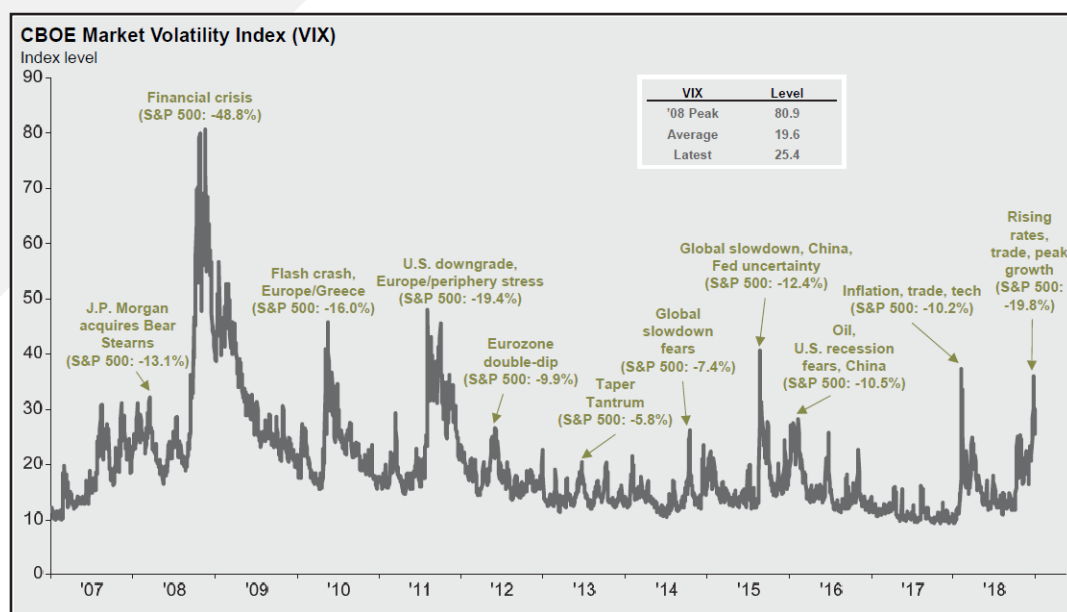


Market Roller Coaster

Mr. Market

What a wild market we saw in the fourth quarter! It seemed like the entire quarter was one large downward trend in the stock market, both domestic and abroad. For the year, the S&P 500, MSCI EAFE, and MSCI Emerging Market indices declined 4.4%, 13.8%, and 14.6%, respectively (in the final month of 2018, we saw those same indices drop 6.8%, 4.4%, and 3.2%).

The turbulence that the year ended on was unlike anything we had seen for the past two years; in 2017, when domestic markets did not fluctuate more than 3%, and in 2016, when this only occurred five days. In 2018, this 3% move happened fifteen times, and the VIX Index (the most popular indicator for market volatility- see chart below) ended 30% higher than its long-term average.



SOURCE: CBOE, FACTSET, J.P. MORGAN ASSET MANAGEMENT

Around the globe, major indices posted negative performance in almost every region in the fourth quarter, attributed mostly to trade tensions, a tightening monetary policy, and political uncertainty in several markets. In developed markets, equity markets in the US, Europe, Japan, and the Asia Pacific all

dropped, returning -13.5%, -12.7%, -14.2%, and -7.9%, respectively. Both France (-15.0%) and Italy (-11.8%) were involved in tense political situations, while the UK (-11.8%) continued to struggle

with the Brexit negotiations. Over the same period, most emerging markets also fell with Emerging Asia returning -11.5% and Emerging Europe returning -6.1%. China's (-10.8%) negative performance could most likely be attributed to trade uncertainties with the US, as well as looming concerns about economic growth. Latin America did show signs of positivity (+0.4%), as the Brazilian market (+13.9%) and currency rallied because of the optimism coming from the country's election results.

Economic Highlights

In general, the US economy reported mixed indications of health, although growth and corporate earnings revealed mostly positive signs. One of the leading indicators for inflation, the Consumer Price Index for all Urban Consumers (CPI-U) was flat for the twelve-month period leading up to November at 2.2%, slightly down from the previous month of October (2.5%). Although there was little movement from the month of November, it is worth noting that this marked the twelfth straight month in which the inflation number was greater than or equal to 2.0%. The US economic growth indicator, Gross Domestic Product (GDP), expanded at a rate of 3.4%, continuing a trend of strong growth for the year. Also, the important consumer component of GDP, personal consumption, grew by 3.5% in third quarter (although slightly slower than the previous quarter's numbers, 3.8%).

Employment in the US rose significantly in the December as 312,000 jobs were added, finishing up the year at an average rate of 220,000 payrolls; the strongest rate since 2015 when an average of 226,000 was achieved. Other positive indicators were the unemployment rate, labor-force participation, and wage growth. The year ended at an unemployment rate of 3.9%, which is still one of the lowest points since the late 1960's. Labor-force participation was relatively flat for the year, but still at high levels not seen since the late 1970's. Also, wages grew by 3.3% in 2018; the strongest growth this country has experienced in the last ten years.

Other notable areas of the economy are food, shelter, and energy. In November, food prices grew (+0.2%) as well as shelter prices (+0.3%). The energy markets, WTI crude oil was down for the quarter over 37.0%, causing gasoline prices to also drop over 37.0%.

Fixed Income and Credit Markets

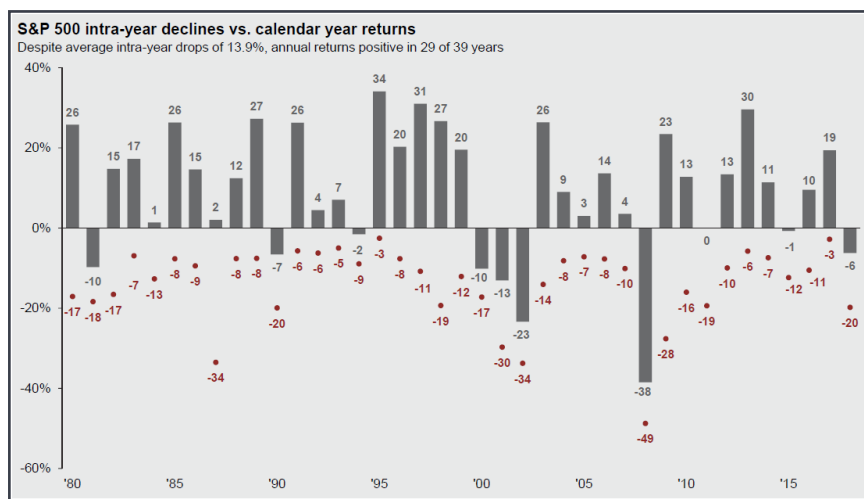
Interest rates in the US continued to rise in the fourth quarter, which created a generally concerned attitude towards the credit market. This was evident as investment-grade corporate

bonds and high yield corporate bonds returned -0.2% and -4.5% over the three-month span. The worst sectors of performance in investment grade corporates were industrials (-0.5%). Meanwhile, high yield corporates performed the worst in the energy (-10.0%) and industrials (-5.1%) sectors. With continued signs of slowing in popularity and/or availability, high yield bond issuance was just \$173 billion for the year (\$14.2 billion for the quarter), an amount that was roughly 39% below 2017.

In December, the Fed voted to increase the federal funds target range by 0.25% from 2.0%-2.25% to 2.25%-2.50%; the fourth increase of 2018. Chairman Powell stated that interest rates are now at the lower end of the neutral range. Regarding the US Treasury market, all interest rates fell but the shortest maturity; a sign that the financial markets were leaning toward a more risk averse attitude. This means that the yield curve continued to flatten for the year; a worrisome sign for investors who believe this could lead to an inverted yield curve, the infamous indicator of a looming recession.

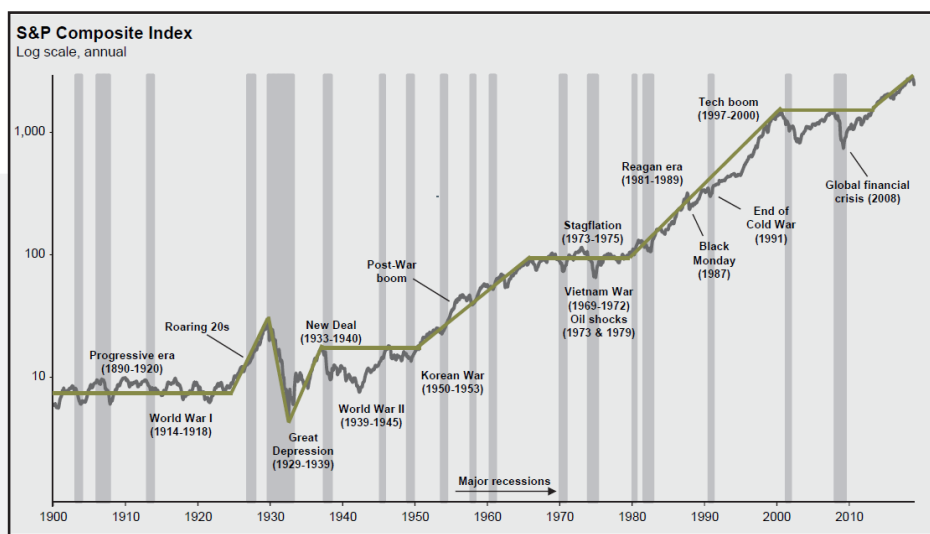
Final Thoughts

It is only human to begin worrying after witnessing the market drop we saw in the fourth quarter. Some of you might ask, “But what if I never make that money back?” We believe that is a valid question. We also believe that we have no control over the markets; we only have control of the how hard we work to help make sure that your investment portfolios are constructed in a way that give you the best chance to succeed. We then sit and patiently wait, while making informed decisions on the types of adjustments we make in your investments (although, not too many adjustments). The legendary stock market investor, Charlie Munger once said, “The big money is not in the buying and selling... but in the waiting.” The chart below gives us comfort in our allocation choices, like those that we made in in our domestic stock market.



SOURCE: FACTSET, STANDARD & POORS, J.P. MORGAN ASSET MANAGEMENT

Returns shown in the chart above are calendar year returns from 1980 to 2018, over which time period the average annual return was 8.4%. The chart below also helps to reinforce our thesis: patience pays off!



SOURCE: FACTSET, NBER, ROBERT SHILLER, J.P. MORGAN ASSET MANAGEMENT

The chart above is an illustration of the stock markets performance since the year 1900. We believe it shows the great power of our market and its natural upward trending pattern over long periods of time.

Our client portfolios held up well in 2018. One example of this the allocation to the Nexus Capital Smart Beta Fund; the portfolio was up 0.3% for the quarter and 6.2% for the year (compared to the negative performance from the S&P 500 – down 13.5% for the quarter and 4.4% for the year). We know that the case we are presenting is over a relatively short period of time, so it does not prove or guarantee that everything (and anything) we do will succeed in all market conditions. However, we do think it shows one of the many positive investment decisions we made and how it held up during “difficult times.”

Please don't forget that we are with you not only when the markets are going up, but also when they are going down!

Firm Updates

Over the past two years we have experienced incredible growth. Nexus Capital has upgraded its technology platform and has grown significantly larger in terms of assets under management. It only seemed appropriate to take the next step and adjust to our growth. With that said, we will

be kicking off 2019 with a move to a new office! Our new address is:

**1175 Pittsford Victor Rd, Suite 220
Pittsford, NY 14534**

We also have another firm update: Domenica Marino has been appointed as Director of Operations for Nexus Capital. Her responsibilities include developing internal technology systems, screening, vetting, and training personal support hiring decisions. We are very happy to have Domenica on board with us!



If you haven't been keeping up to date with the Nexus Capital over email, please don't hesitate to check in our website social media pages – LinkedIn, Facebook, Twitter, and Instagram (yes, Instagram) – for updates. With that said, we invite all conversations addressing your questions or comments with an old-fashioned phone call or a visit to our new office.

Thank you all for taking the time to stay updated with our newsletter!

Sincerely,

The Nexus Capital Team

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