



WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

Market Commentary

Last week was a holiday shortened week with U.S. stocks having the worst Thanksgiving week performance in seven years. Stock markets reached the lows in late October, erasing gains for the year and leaving investors wondering if the lower stock prices are a Black Friday bargain. Continued weakness in tech stocks, higher corporate bond spreads, crude oil declining for the seventh straight week, and disappointing earnings results from retailers all contributed to the negative sentiment. International stocks held up better and bonds helped stabilize portfolios.

dollars are still flowing into weekly paychecks. Also, declining oil prices also means that consumers have more money to spend.

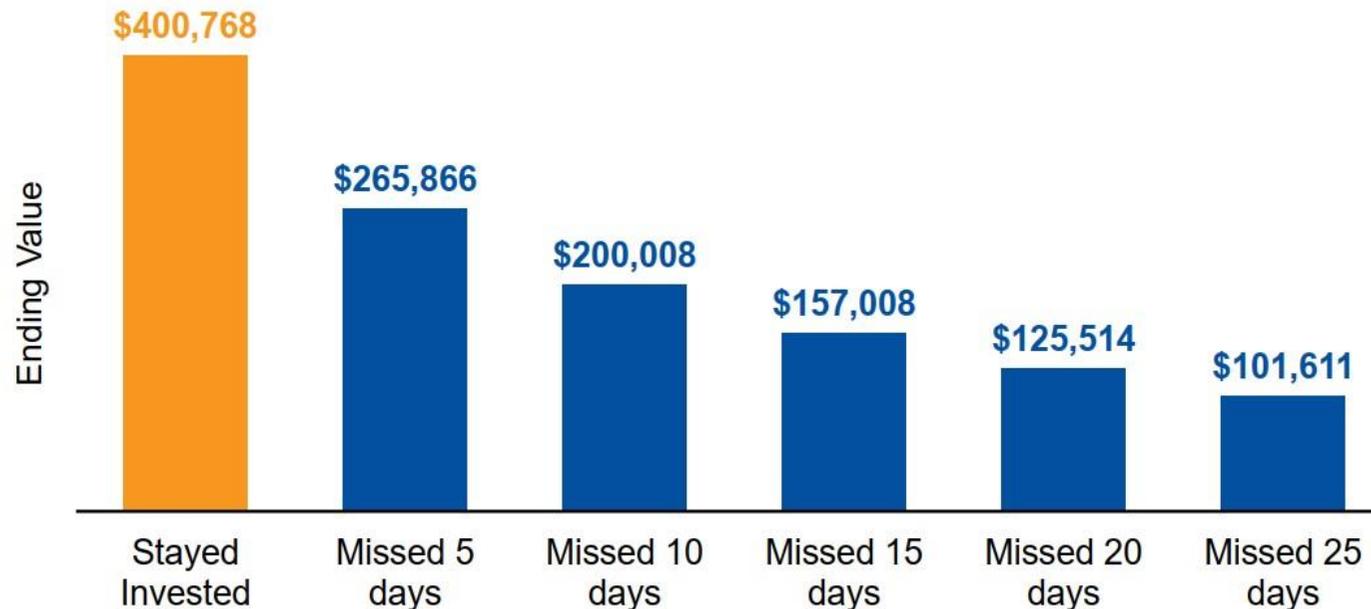
- **Shopping is going more digital.** The percentage of total e-commerce sales is growing steadily. Sales made over the Internet now represent 10% of total retail sales and are set to grow by 15% this year, according to the U.S. census. Retailers that want to keep pace with shifting consumer shopping preferences are investing in e-commerce technology, making mobile phone shopping easier, and offering free shipping and other delivery perks to stay competitive.
- **Shoppers are buying smaller.** Growth in retail sales over the past 10 months has been driven by bigger ticket purchases like autos and home improvement. More recent data show that consumer spending on big items is slowing and will likely shift to smaller purchases like footwear, apparel, handbags, and electronics. We think a healthy consumer signals more economic growth ahead, but this trend is consistent with our view that we are in the latter stages of the economic expansion. This shift to smaller goods (as reflected in autos and housing) is an indication that consumers are confident, but despite encouraging wage gains recently, consumer spending looks poised to grow at a pace that will support positive but slightly slower GDP growth next year.
- **Ultimately, the retail outlook appears solid, but is slowing.** Consumer strength has been a boom to retailers. However, the economic backdrop is not without its flaws as we saw during last week's sell-off. As major retailers reported earnings, investors' concern over peaking earnings and slowing growth triggered market volatility. As retailers invest in e-commerce to stay competitive, margins will likely slow. Rising freight and trucking costs, wage pressures, and tariffs are also headwinds for the retail sector in the short-term. Retail sales are expected to rise 5% over last year, just slightly below the 5.6% in 2017. Retail sales growth has averaged 2.7% during this expansion, so 5% suggests consumer spending will continue to support reasonably healthy growth. More potential good news for investors (and shoppers) is the extra week of holiday shopping and earlier store opening times, which could bolster sales this year.

When it comes to investment returns, a longer-term assessment is important. Our outlook is to expect solid consumer spending and economic growth to continue, but at a slower pace. In our view, positive economic fundamentals will

continue to support rising share prices, even as we reach the late stages of the bull market and volatility become more common. It's critical to be invested in the market during the top performing days, as shown below.

Missing top-performing days can hurt your return

Growth of a hypothetical investment of \$100,000 in the S&P 500 index over the last 20 years (1998-2017)



Sources: BlackRock; Bloomberg. Stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the US stock market. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

Victoria Capital's Strategy Update

Stock market volatility continued through mid-November as technology stocks, led by Apple Computer and energy stocks impacted by falling oil prices fell while companies with stable or better than expected earnings rose. Contrast the traditional blue-chip drug company Merck that was hitting new 52-week highs while Apple has fallen 24%. Clearly, there is evidence of a “panic attack” in equity markets as you can see by the increase in volatility in the chart below. As noted by the Califia Beach Pundit “the “worry” level these days is significantly less than it has been at other times in

the past several years, even though the market's response has been of similar magnitude.” The point is that, although the market is volatile, it is important to focus on portfolio diversification to lessen the risk of being exposed to one stock or one sector that can be affected by unrelated factors.

Apple, the darling of the tech sector due to the prominence of the iPhone, appears to have reached the technological threshold where each innovation is not enough to trigger a new wave of buyers because of that new technology. A similar series of events happened to Microsoft at the end of the 1990s as the Windows operating system and the Office software programs, core products of the company, experienced a similar technological top out. Once such an event occurs—especially for companies with market capitalizations that are at or near the largest companies in the world—above average growth rates are difficult to maintain. Microsoft’s stock peaked in late 1999 at a split adjusted price of \$38 and didn’t achieve that level again until July of 2014, nearly 15 years later. The theory of buy and hold makes sense in the context of a diversified portfolio but may not make sense on a smokestack basis. The other eerie similarity between these two companies is that Apple remade itself from a personal computer company to a broad-based consumer products company in the communications sector while Microsoft remade itself as a cloud based software company. In both cases, these changes allowed these companies to regain market leadership in each respective field. We did not make any changes in the Growth Equity portfolio or the Target Return Portfolios over the past week.

Redhawk's Strategy Update

The selloff of the past two weeks has erased the year-to-date gains for the S&P 500 and the Dow, and the S&P entered a correction on Friday by falling more than 10% below its record high set on September 20. It's the index's second correction this year, following one in early February. For the second week in a row, stocks tumbled on Monday and Tuesday, as the NASDAQ recorded a two-day cumulative drop of 4.7%. Stocks fell further in abbreviated post holiday trading on Friday, and all three indexes were down around 4% for the week.

Many U.S. economic indicators continue to point in a positive direction, despite the recent market sell-off. On Wednesday, the Conference Board Leading Economic Index for the U.S. posted a small monthly gain compared with the prior month, and it remained at a level that historically has suggested a low probability of a near-term recession. Shares of some major retailers sank entering the holiday shopping season. On Tuesday, shares of Target and Kohl's dropped 11% and 9%, respectively, after the department store chains released quarterly earnings.

Market turmoil is focusing more attention on the U.S. Federal Reserve heading into its next policy meeting on December 18–19. Some Fed leaders have recently signaled that they plan to proceed with their fourth interstate increase of the year, despite calls from President Trump and others to slow the pace of rate hikes.

The views expressed represent the opinion of Redhawk Wealth Advisors, Inc. The views are subject to change and are not intended as a forecast or guarantee of future results. This material is for informational purposes only. It does not constitute investment advice and is not intended as an endorsement of any specific investment. Stated information is derived from proprietary and nonproprietary sources that have not been independently verified for accuracy or completeness. While Redhawk Wealth Advisors, Inc. believes the information to be accurate and reliable, we do not claim or have responsibility for its completeness, accuracy, or reliability. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and the Redhawk Wealth Advisors, Inc.'s view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such statements. Investing in equity securities involves risks, including the potential loss of principal. While equities may offer the potential for greater long-term growth than most debt securities, they generally have higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. Past performance is not indicative of future results.

Economic Data for this Week

Monday:

1. No major reports scheduled.

Tuesday:

1. S&P/Cassville 20-City Composite Home Price Index.
2. Consumer Confidence Index, The Conference Board.

Wednesday:

1. Third quarter GDP, second estimate, U.S. Bureau of Economic Analysis.
2. New home sales, U.S. Census Bureau.

Thursday:

1. Release of minutes from November 7–8 meeting of the U.S. Federal Reserve Board.
2. Personal income and consumer spending, U.S. Bureau of Economic Analysis.
3. Pending home sales, National Association of Realtors.

Friday:

1. No major reports scheduled.

Our signals remain with the “risk on” reading and we will continue to monitor the markets closely as we anticipate sustained volatility.

Portfolio Managers

The Target Return (TR) portfolios consist of a blend of exchange traded funds (ETFs) to provide a range of risk and return characteristics that should meet the needs of investors saving for retirement. Each of these portfolios is designed to achieve a long-term target rate of return. By utilizing low cost ETFs and by keeping portfolio turnover low, the ability to produce targeted rates of return is dramatically increased. For investors seeking current income, the TR Income Portfolio (TRIP) has been structured to focus on producing both high current income and growing dividend income. The goal of the Victoria Capital Growth (VCG) portfolio is to provide long-term growth through a diversified portfolio of individual equities. A theme based investment strategy concentrates investments in common stocks of companies that are expected to grow faster than the overall economy. Owning individual stocks gives greater flexibility to make changes on a stock by stock basis for each client. By applying a bottom up defensive tactical trading discipline, substantial portfolio reserves can be generated.

Disclaimer: Redhawk Wealth Advisors, Inc. and its officers, employees, affiliates, or members of their families may have a position, long or short, and may, from time to time, execute purchase or sale transactions in securities which may be inconsistent with the analysis given herein. The information contained herein has been derived from sources believed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of any security, company, industry, or index. This report is not to be construed as an offer to sell or a solicitation of an offer to buy or sell any security. It is not intended to provide investment advice tailored to your specific situation. You may lose part, or all any funds invested in any investment discussed in our Daily Research Updates. Past performance is no guarantee of future success. The information in this report in no way attempts to provide accounting, legal or tax advice. You should always consult your legal, financial and tax advisors before acting on any information contained in this newsletter. Additional information is available upon request.



Copyright © 2018 Redhawk Wealth Advisors, Inc., All rights reserved.

Want to change how you receive these emails?

You can [update your preferences](#) or [unsubscribe from this list](#)