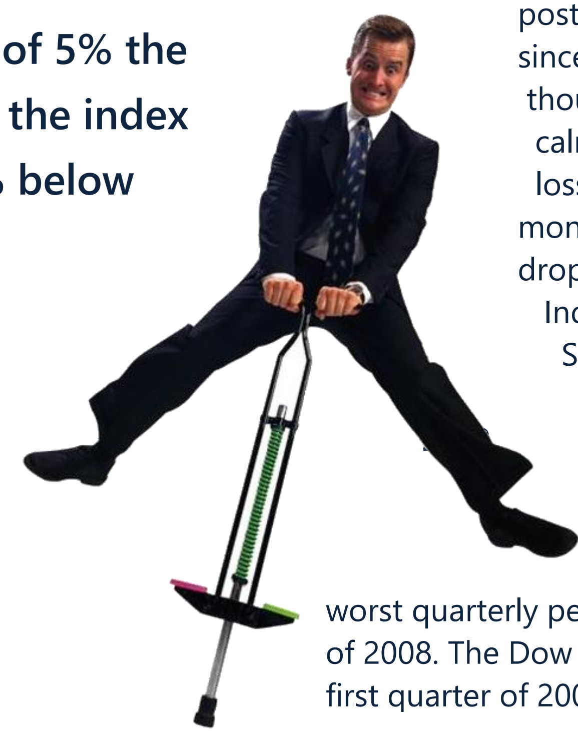
Economic update

> **"After a rotten October and limp November, the S&P 500 tumbled in value by 15% between November 30th and December 24th. Despite an astonishing bounce of 5% the day after Christmas, the index finished the year 6% below where it started …"**

After a long period of respectable returns, many equity investors experienced losses during the fourth quarter of 2018. Following a strong third quarter, the fourth quarter was filled with a great deal of uncertainty, which is the equity market's least favorite scenario. Interest rate hikes and trade wars caused major concerns. As a result, U.S. equity markets posted their worst October numbers since the financial crisis of 2008. Even though November saw equity markets calm down, much of this quarter's losses came in December. In that month, all three major U.S. indexes dropped at least 8.7%. The Dow Jones Industrial Average (DJIA or Dow) and S&P 500 also recorded their biggest monthly losses since February



For the quarter, the S&P 500 and NASDAQ dropped 14% and 17.5%, respectively, their worst quarterly performances since the fourth quarter of 2008. The Dow recorded its worst quarter since the first quarter of 2009, falling nearly 12%. As bad as

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ARE YOU A HFS CLIENT ADVOCATE?

A Client Advocate for Hughes Financial Services is someone who refers us to a family member, friend, or colleague who can benefit from using our comprehensive financial planning services.

If you know someone who has experienced one of life's milestones, is close to retirement and would like a second opinion, or is ready to plan for their financial future, go ahead and let them know all about us. We'd love to help!

YOU CAN BECOME A CLIENT ADVOCATE IN THREE WAYS

Host a guest at any of our educational workshops this year

Sign up friends/family members (with their permission) to receive our educational materials in the mail year-round

Refer someone to us for a complimentary, no obligation financial check-up or second opinion about their financial plan

When you become a Client Advocate for Hughes Financial Services, we'll thank you with an invitation to one of our Thank You events in 2019! Past events have included exclusive dinners, cooking classes, Washington Nationals games viewed from a private suite, a private dinner and Wolf Trap concert, and much more!

| *Referrals made between June 8, 2018 and September 7, 2019 qualify for the 2018-2019 Thank You events* |

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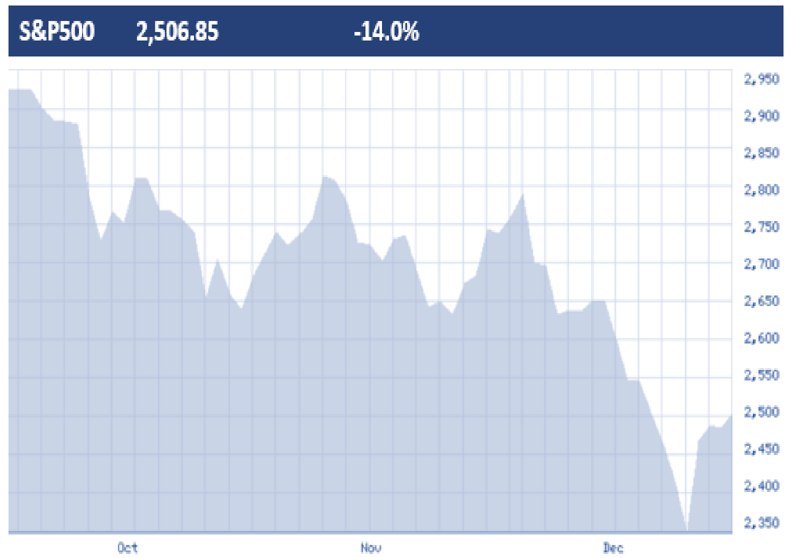
they were, the final numbers do not fully explain just how crazy and wild a ride December really was for investors. Based on the lowest levels of the S&P 500 on Christmas Eve, the index was down over 20% from its record high on an intraday basis, briefly meeting the requirement for a bear market. The stock market would then come rising back in the next session, with the Dow up over 1,000 points on December 26th, its biggest ever point gain.

Many market analysts felt the declines were driven by concerns of an economic slowdown, the ongoing trade negotiations between China and the U.S. as well as fears the Federal Reserve might be making a monetary policy mistake. In December, the Fed raised interest rates once again by 0.25%, elevating the U.S. Federal Funds rate range to 2.25% - 2.50%. Additionally, the Fed forecasted additional rate hikes in 2019 and that was not helpful for equity markets.

While a correction (defined as a drop of over 10%) in equity markets is not uncommon, there was one interesting characteristic of the fourth quarter market: intraday volatility. A record number of sessions with intraday 500+ point swings occurred in the Dow. That is roughly 2% of the current level of the Dow. The Dow had five consecutive sessions with 500+ point swings from December 4 to December 11. As such, this unusually high intraday volatility attracted a lot of media attention making it seem as if the stock market was one of the main discussion topics on the news every night.



	MONTH	QUARTER	2018
Dow	-8.7%	-11.8%	-5.6%
S&P 500	-9.2%	-14%	-6.2%
Nasdaq	-9.5%	-17.5%	-3.9%

MONEY RATES (as posted in Barron's 12/31/2018)		
	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	2.36%	1.42%
Bank Money Market -z	0.22%	0.14%
12-month Cert -z	0.88%	0.42%

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)

2018 ECONOMIC REVIEW

AFTER A 2017 THAT FEATURED STRONG EQUITY RETURNS AND A VERY LOW VOLATILITY ENVIRONMENT, 2018 TRULY TESTED THE COMMITMENT OF LONG-TERM INVESTORS.

The S&P 500 and Dow fell for the first time in three years, while the NASDAQ broke a six-year winning streak. The year was characterized by the return of volatility, record highs and sharp reversals. For the first time ever, it also resulted in the S&P 500 posting a decline after rising in the first three quarters. Additionally, the Dow finished out the year in the red after rising in the first three quarters – something that hadn't occurred since 1978.

According to Morningstar Research, results for 2018 "were even worse for those invested in markets outside the United States." The MSCI EAFE Index (an equity index which captures large and mid-cap representation across 21 Developed Markets not including the U.S. and Canada) plunged about 14% in U.S. dollar terms. Morningstar noted that a variety of concerns including local political issues and troublesome economic data, hurt international markets. Many other stock markets abroad also posted deeper losses than those in the U.S. For example, China's Shanghai Composite entered a bear market in June and declined nearly 25% in 2018. The Shenzhen Composite (which includes many of the country's tech firms) dropped by over 33% for the year.

A variety of problems affected foreign-stock funds. Economic growth in the U.S. was much stronger than that of Europe, where the trends that had finally moved in a positive direction reversed course, with growth rates down to near zero or even dipping into negative territory in some countries. Europe's biggest market, the United Kingdom, has been stressed by uncertainty over the details of Brexit. Political difficulties in Italy and other European countries also didn't help matters.

For the past decade, income vehicle returns have been significantly lower than equity returns, and cash equivalents brought in very little. Although they add less returns, low return cash equivalents and income vehicles provided less volatility and stress. Many investors abandoned diversification and fully allocated into potentially higher returning stocks. This strategy can be advantageous when markets rise, but dangerous when they fall. Sometimes, investors are emotionally driven to change their allocations, but doing so could add additional risk.

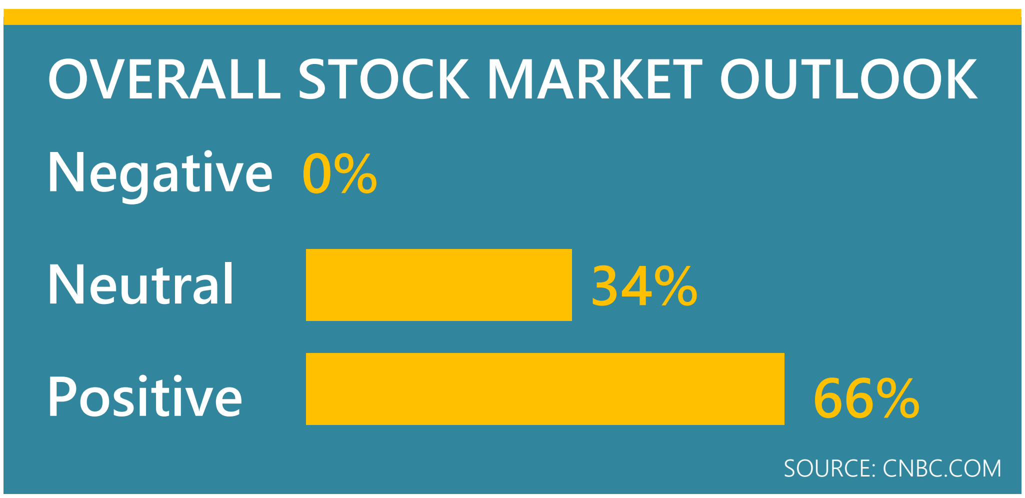
After almost a decade of strong equity returns, 2018 was a confusing and difficult year for investors. Despite the sour year-end close, we should remember that the Dow recorded 15 new highs in 2018 (ahead of the annual average of 11 new highs per year since inception). While the Dow reached more new highs in 2017 (71 in total, more than any year in history), there have been 53 calendar years when the DJIA notched at least one new high and 70 when none were recorded. For most investors, 2018 fully tested their commitment and patience.

2019 OUTLOOK

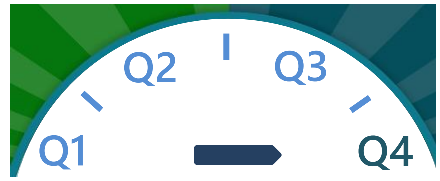
STOCKS MAY BE COMING OFF THEIR WORST YEAR SINCE THE FINANCIAL CRISIS OF 2008, BUT FOR 2019, MANY ANALYSTS FEEL THAT EQUITY MARKETS WILL HEAD HIGHER. Over 65% of 29 industry experts respondents to CNBC's exclusive "Halftime Report Stock Survey" said their overall stock market outlook is positive. Over 58% felt that equities look cheap at current valuations. CNBC noted that no one responded that he or she believes equities are overvalued at current levels. About 41% believe stocks are correctly valued, and nearly 60% felt current valuations look cheap, which indicates an overall bullish sentiment.

In a 2019 Outlook, Forbes asked, "What do stocks do after a down year?" They felt 2018's decline might not be the best forecast and shared, "Let's pull out all the down years from 1926 through 2017, of which there were 24. The average return in the year following a down year was 10%, the same as the overall average." They also shared, "Uncertainty about the future course of stocks is large, so investors should fall back on a few fundamental principles. Diversification of investments reduces risk."

Barron's 2019 Outlook reported investors will be happy to bid good riddance to 2018, a stressful year marked by two stock market corrections, rising interest rates, an ugly trade battle, and growing fears that a bear market lies just around the corner. All ten market strategists Barron's consulted in late December had 2019 targets for the S&P 500 index finishing the year higher.



Seeking Alpha notes that, "Forecasting how 2019 will play out may be pure guesswork under current circumstances." They also add that, as we begin the year, there is a shut-down of important U.S. government services and a new political landscape in a Democratic Congress. They also report that although the Federal Reserve has raised rates and the global trade war is far from being resolved, current economic indicators are not pointing to an immediate recession. They cite that, on the employment front, we now have a tightening labor market with unemployment down to 3.7%. They share that *The Index of Leading Economic Indicators* (which consists of ten forward-looking variables such as: unemployment claims; manufacturing shipments and orders; housing starts; interest rate spreads; M2 money supply; the S&P 500; and consumer sentiment) is still in expansion territory as of 1/1/2019.



HIGHLIGHTS

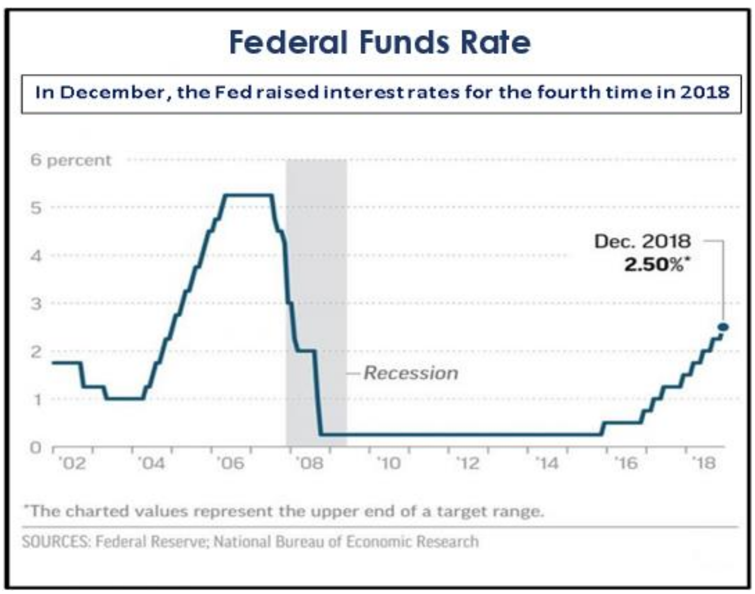
- Q4 finished 2018 with poor returns for investors
- After a quiet 2017, volatility returned to 2018 equity markets in a historic way
- Fed raised rates to 2.25% - 2.50% in December, and could raise rates again in 2019
- Key economic data indicators are still reasonable
- Analysts suggest 2019 will have positive equity returns
- Investors need to still be very cautious and watchful
- Focus on your personal goals and always call us with any concerns

AN EYE ON INTEREST RATES

Three years ago, the Fed moved away from the near-zero rate that had been in place since the days of the global financial crisis. In December 2018, the Fed raised interest rates for the fourth time last year to move the target range for its benchmark fund to 2.25% - 2.5%. Since that session, Fed officials have forecasted two more hikes in 2019, down from three rate raises previously projected. This is because the Gross Domestic Product (GDP) was seen as rising 3% for the full year of 2018, down one-tenth of a percentage point from September, and forecasted for 2.3% in 2019, a 0.2% point reduction.

While investors wanted certainty about ending the rate hikes, the Fed included in its statement that further "gradual" rate hikes would be appropriate. Charlie Ripley, senior investment strategist for Allianz Investment Management said that, "while this was a dovish hike from the stance that the Fed was in before, this is somewhat not as dovish as many participants probably wanted." He added, "It would have been a difficult move for the Fed to completely remove some of the 2019 hike expectations, but I think they're making the message clear that they're going to remain more data dependent as we go into 2019." The Fed's official meeting notes described economic growth as "rising at a strong rate" and therefore the door remains open for further rate hikes.

Besides potential rate hikes, further trade wars with China can keep markets quite volatile in 2019. Trade wars and signs that China's economy is slowing have added to global uncertainty. Interest rates, trade wars, and worldwide growth rates should all be on an investor's watch list this year.



COMMON MARKET TERMS TO KNOW

% DROP	REFERRED TO AS
< 5%	DIP
5-10%	PULLBACK
10% +	CORRECTION
20% +	BEAR MARKET

▶ STOCK MARKET CRASH

A sudden and significant decline in equity prices of a very short period of time

▶ RECESSION

A general slowdown in economic activity, generally defined as two consecutive quarters of negative GDP growth. While the effects of a recession often cause the stock market to fall, **the term itself doesn't refer to a specific type of market activity.**

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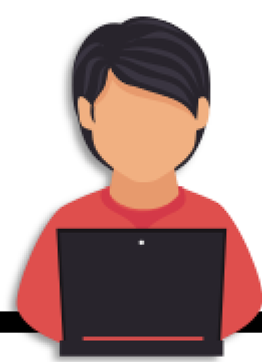

WHAT SHOULD AN INVESTOR CONSIDER?

While many analysts remain optimistic for the coming year, volatility, corrections and bear markets will always be a part of the investment sequence. Although the old Wall Street joke can remind us that 10 out of 9 analysts can correctly predict the next recession, predicting exactly when equity markets will start back upward is near impossible. Investors with longer time horizons of 10 to 20 years or longer can often accept more risk than those with shorter horizons. While past performance is no indication of future performance it still gives us data to consider. Based on the DJIA, 10-year returns since the index's inception have averaged over 83%. This year, despite the negative performance, the 10-year return is an impressive 165%.

Old Wall Street joke: 10 out of 9 analysts can correctly predict the next recession

How is that possible? It's because this most recent 10-year period began after the DJIA was beaten up during the financial crisis. Since then, the DJIA has risen from approximately 8,800 to over 23,000 points.

CNBC reported on January 1st that some strategists are saying if the stock market's two worst fears are resolved in 2019, that it could be a good year for stocks. While strategists see volatility continuing in 2019, they felt that the biggest worries for investors are still trade wars and the Fed's interest rate movements. While many analysts remain optimistic, investors should prepare for continued volatility and not a straight-line uptrend.

KNOWLEDGE IS POWERFUL

While the nightly news and financial tabloids like to use harsh and scary language to attract viewers, oftentimes their quick views of equity market performance include media magnification, which is the act of making something look larger or more important than it really is.

Currently, equity markets are volatile and have experienced a correction (some are even in bear market territory) but not a crash. Most corrections are not market crashes. If you recall the October 19, 1987 market drop of 508 points (a 22.6% decline), that clearly was a market crash. The same percentage decline for the Dow if it had happened on January 2, 2019, would have been over 5,000 points (which clearly did not happen).

It is often said that an emotional investor may make decisions that might not work out best. An informed and knowledgeable investor can often be less emotional. Differentiating a correction (with a frequency on average of once a year) from a bear market (with a frequency on average of once every three years) can help investors when making decisions.

YOUR NEXT STEPS

Completely avoiding market risk may not be appropriate for most investors and today's traditional fixed rates might not help you achieve your desired goals. Many investors attempt to build a plan that includes risk awareness often leading to safer but lower returns. Traditionally, bonds have been a nice hedge against market risk, but with interest rates projected to rise, investors must be extremely cautious.

Create and adjust: During uncertain times, it's always wise to create realistic time horizons and return expectations for your own personal situation and to adjust your investments accordingly. We try to understand your personal commitments, so we can categorize your investments into near- term, short- term, and longer- term.

Check your comfort levels: Equity markets will continue to move up and down. Even if your time horizons are long, you could see some short-term downward movements in your portfolios. Make sure your investing plan is centered on your personal goals, risk tolerances and timelines. Peaks and valleys have always been a part of financial markets and it is highly likely that trend will continue.

Caution reigns in 2019: Investors need to be prepared but not emotional. Market volatility has caused concern, but panic is not part of a sound financial plan. Market downturns happen as do recoveries.

Concerns? Call us! 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 next scheduled meeting.**

HUGHES FINANCIAL SERVICES, LLC

Hughes Financial Services, LLC, is an independent Registered Investment Adviser (RIA) working closely with individuals and families to provide direction and strategies on how to financially achieve their specific goals and dreams.

We are a fee-based firm that seeks to adhere to the highest fiduciary standards and provide clients with advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- estate planning
- investment management
- risk management
- insurance
- education planning

The financial advisers at Hughes Financial Services hold a variety of professional designations and certifications and are well-versed in a number of financial disciplines. We proudly specialize in helping employees and retirees of local government and school systems with their retirement options. Our combined education and experience allows us to offer you independent financial advice and solutions that we are proud to provide for you.

Hughes Financial Services, LLC, is located in Herndon, Virginia (Fairfax County).

A good financial adviser should help make your financial planning journey easier. Our goal at HFS is to understand your specific goals and dreams and then offer direction and strategies to help get you there. While we cannot control financial markets or interest rates, we do keep a watchful eye on economic, tax and investment issues, continually monitoring your portfolio, and consistently communicating with you in a way that's simple, streamlined and easy to understand. One of our primary objectives is to take the emotions out of investing for clients. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment anytime.

As always, we appreciate the opportunity to work with you in addressing your financial matters.

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