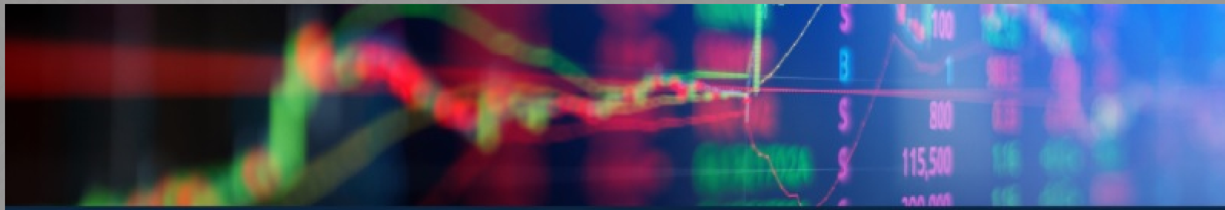

DECEMBER 2018 MARKET UPDATE

Safeguard Investment Advisory Group, LLC

Safeguard Market Update

2018 has been one of those years that most investors would like to forget about including two stock market tops and two market corrections. The volatility that has played out has set records and unfortunately the roller-coaster ride is not over yet.

There is no single factor causing this instability. It's actually been a combination of factors weighing on the market in recent weeks which we refer to as market “noise”. This noise has been deafening to say the least and includes things like the Fed, Tariffs, Oil, Yield curve, China, Politics, and the list goes on. This has caused considerable uncertainty among investors and uncertainty is not a friend of Wall Street.

That being said, let’s look at some important data. According to Yardeni Research, the S&P 500 has undergone 36 corrections of at least 10% since the beginning of 1950. That's about one correction every 1.9 years, which illustrates just how common "swoons" in the market actually are. Of course, when we look at these corrections over a short time frame, they do, indeed, look daunting. With all of the noise this year Mr. Market has basically been flat for the year currently about 1% above January 1st. It has realized about a 23% gain over the past two years and 50% gain over the past five years.

So what does the future hold? Are we heading into a bear market? What’s 2019 looking like? Unfortunately we don’t have a crystal ball but we do have a clear picture on why we have such crazy volatility. Let’s dig deeper into what we’re seeing on a macro level.

- Profit warnings from industry leaders. Most recently, this included disappointing outlooks from heavy-duty machinery manufacturer Caterpillar and stationery/adhesive kingpin 3M.

- Oil prices have plummeted over 30% in three months. This has wreaked havoc over many parts of the capital markets.

- The ongoing trade war between China and the U.S., which has increased the cost of aluminum, steel, and other goods in the U.S. and adversely impacted the bottom lines for many industries. Although the preliminary news did sound promising from the Trump/Xi meeting, there is skepticism and confusion about the truce between the U.S. and China on trade after China promised action but gave no details on the tentative truce. We’re all for fair trade but we also understand that we’ve basically torn the Band-Aid off of the wound and it’s going to take some time to heal. Rest assured, resolutions will come to fruition since both sides understand that no one wins in a trade-war.

- Notable increases in wage inflation and the lowest unemployment rate we’ve seen since 1969.

- Rising interest rates triggered by the Federal Reserve’s quantitative tightening policy could put the brakes on a fast-growing U.S. economy. History shows that the primary cause of recessions is an overly zealous approach to monetary tightening by the Federal Reserve. Fed Chair Jay

Powell has his hands full with his dual tightening policy of higher rates coupled with QT or Quantitative Tightening. If the Federal Reserve tightening effort goes too far, the risk of recession will increase. We've been watching the "yield curve" for some time now and the fear of an inverted yield curve came to fruition last week. Why is that important? Because if we go back 50 years, every time the yield curve has inverted it's been followed by a recession. The Federal Reserve is very aware of this gamble but also has a balance sheet that remains a whopping $4 trillion from eight years of quantitative easing. They are reducing this by $50 billion per month! We expect the QT program to continue into the 2020-2021 time frame.

- And now that the 2018 mid-term elections are over, for the next two years, the country will be governed by a divided Congress with the G.O.P. in control of the White House. Government gridlock has returned, and investors generally prefer gridlock, especially after a major corporate income tax rate cut from 35% to 21%. There will most likely be no new tax legislation for the next two years.

What we don't see is a full blown bear market on the horizon. What we do see is a potential of increased volatility over the next 6 to 12 months...It is due to these types of occurrences in the market that we have incorporated hybrids into our overall structure.

Based on all of this information, we are not recommending changes at this time, but do want to let you know that we are monitoring our portfolios very closely as well as the economic data, financial markets, trade talks, etc.

If a situation arises where we feel portfolio changes are warranted, we will contact you to go over your options.

Please feel free to contact us at anytime.
Thank you,

The Safeguard Investment Advisory Group Team