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Issue 110 ***Winter Quarter, 2020***

A Great Year. In spite of the uncertainty early in the year regarding the trade dispute with China and other factors, markets moved higher as the year progressed. The U.S. markets turned in outstanding performances, the S&P finished up 29% while the Dow returned 22%, and the Barclay's Aggregate Bond Index rose 8.7%.

Our decision to reallocate portfolios to a heavier weighting in large cap U.S. stocks in early 2019 proved to be the correct decision. As you may recall, we reexamined the allocation theories that we had applied to portfolio management, most particularly reassessing the basis for our exposure to foreign and small cap equities. The intent was to correctly reflect accurate exposure to these asset classes relative to the investment portfolio discipline we adhere to. We endeavored to correlate allocations more precisely with our reconsidered understanding of Modern Portfolio Theory.

We reallocated based upon the underlying securities in the S&P 500 Index and in particular the increased exposure of U.S. corporations to foreign revenues. All investment accounts felt the benefit of this decision. Portfolio performance was enhanced for the year just ended and we will continually reassess allocations going forward to reflect an ever-changing investment landscape. We anticipate regularly rebalancing to carefully correlate with these new specific target allocation objectives.

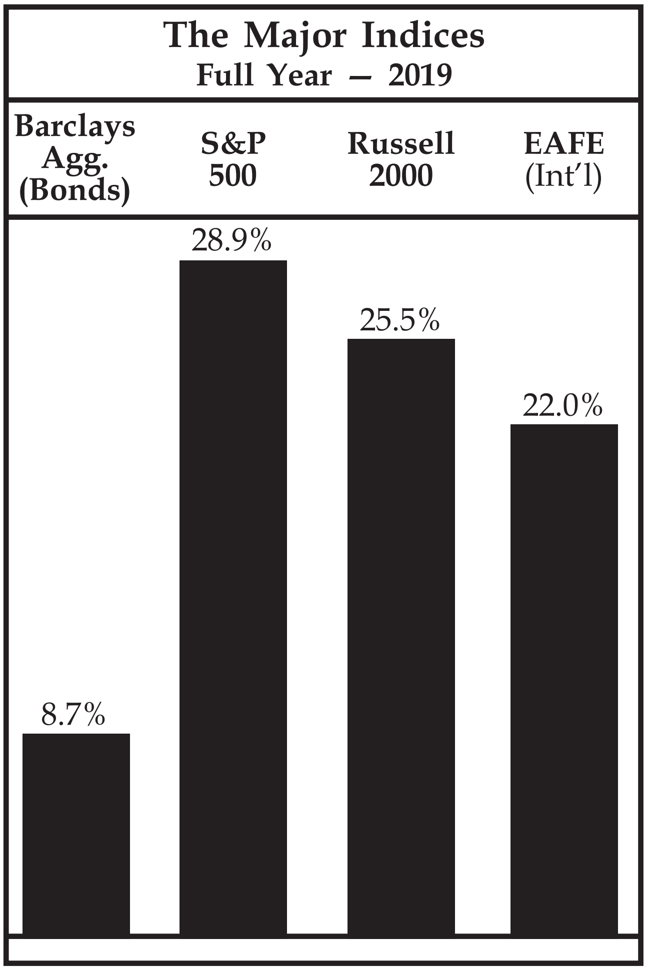
A year ago, our January newsletter stated that for 2018 virtually all major asset classes, except bonds, were in negative territory. In 2019, virtually all asset classes were in positive territory. The only negative areas in 2019 were limited to specific currencies and commodities.

In the year ahead, the markets have areas of both potential opportunity and possible pitfalls, as they do in every year. We do not anticipate returns approaching 2019, but we do anticipate a good market for equities. Politics are at the forefront of this year. With the presidency and both houses of Congress up for grabs, investors will be on edge as November approaches. The undercurrents of politics this year will likely create market volatility but solid corporate earnings, low unemployment, and GDP growth bode well for a positive stock market in 2020. We do not anticipate a recession this year.

We have stepped up our presence on social media and would like to invite you to "Like" the Woodard & Company Facebook page. Go to www.facebook.com/wcamg and click on the "Like" button. You can also link to us on LinkedIn at www.linkedin.com/company/woodard-company-asset-management-group-inc. We are also about to be represented on Instagram. We are told this is a good idea.

Market Review and Forecast. This past year was extraordinary. The S&P 500 closed at record highs 35 times in 2019 as it surged 28.9%, its top return since 2013's 29.6% gain.

The Dow rose 22.3% while the small-cap Russell 2000 was up 25.5% last year. International stocks were the laggards once again, gaining "only" 22%.



The 2010s decade 13.6% yearly average for the S&P 500 (including dividends) was the fourth best decade result in the past 100 years. It was a terrific recovery from the 2000 – 2009 decade that averaged a negative 1% per year. (From October 2007 to March 2009, the S&P 500 plunged 57%.)

A stronger dollar and lackluster economic growth overseas combined to limit international stocks to a weak 5.2% annual average for the last decade. That may be why some forecasters are predicting that less expensive overseas companies will do better than U.S. stocks this decade.

The U.S. market bounced back last year after a nearly 20% decline during 2018's fourth quarter that caused the S&P to finish 6.6% lower in 2018. Certainly the number one factor for the market surge last year was the Fed's switch from raising interest rates four times in 2018 to lowering them three times last year. ("Don't fight the Fed" is almost always true.)

Low interest rates that average about 3.75% for a 30-year mortgage and high consumer confidence have combined to spark a red-hot housing market. (Several realtors have told us that the Winston-Salem area market is the "best ever.") The November Homebuilders Sentiment survey was the best in 20 years and the 1.48 million November building permits was the highest monthly number since May 2007.

Better than expected corporate earnings and a "phase one" settlement with China that canceled threatened additional tariffs scheduled for December 15 were two key factors that helped produce a robust fourth quarter for U.S. stocks. About 75% of companies exceeded estimated earnings for the third quarter – 70% is average for the past decade.

We believe the crash of 2007 – 2009 created "scared" consumers who have taken on less debt and are therefore much better off financially than they were a decade ago. Today, household debt is 76% of GDP – down significantly from 99% in 2008. Given that consumer spending is almost 70% of the economy and that unemployment, at 3.5%, is the lowest in 50 years, we are convinced no recession is on the horizon.

However, GDP global growth has certainly declined as manufacturing here and overseas has fallen during 2019's middle two quarters. That slower growth, uncertainty over trade, and attacks on the wealthy by Democratic presidential candidates may have caused the September Conference Board's CEO Confidence Index to fall to its lowest reading since early 2009.

During the last month or two it seems likely that manufacturing here and abroad bottomed and is beginning to slowly rise. The Russell Investment Company claims it sees "tentative green shoots in manufacturing" and also predicts unemployment will continue to fall until it nears the 1953 Korean War rate of 2.5% percent that set a post World War II record low.

There is no question that the overall U.S. economy has slowed from its 3.1% GDP growth in 2018. It was 2.6% for the third quarter last year and despite terrific Christmas sales, it was probably a little lower for the fourth quarter.

Certainly the worst forecast for GDP growth for 2020 is Vanguard's miniscule 1.0% prediction. The highest we have seen is 2.5% with the average forecast near 2%. Slower growth bodes well for keeping inflation below 2%. Most Fed watchers are convinced that there will be no interest-rate changes during the first half of 2020 and probably for the entire year.

Energy stocks were the worst performing sector of the S&P 500 for the previous decade, ending 2019 only slightly higher than where they were 10 years earlier. While low energy prices hurt stockholders of their companies, they are a big plus for our economy. Bloomberg reported December 8 that that the U.S. "became a net oil exporter for the first time in 75 years."

Corporate profits are forecast to increase 5-10% next year. Last year's run-up has hiked stock p/e ratios to 22x earnings, considerably higher than their 16x long-term average. However, economist Ed Yardeni argues that low interest rates here and overseas justifies a higher than normal p/e ratio.

We have argued many times that accurately forecasting future stock market returns is impossible. Nevertheless, our collective wisdom here at Woodard and Company predicts positive returns for stocks this year. Just how positive remains to be seen.

Interest Rates. Our fixed income portfolio closed the year with solid performance which was a reflection of the greater U.S. fixed income market. The tactical moves we made earlier this year enhanced the safety of our bond portfolio. As mentioned in our previous newsletter, our bond portfolio is currently high quality and shorter in duration, which in the bond world makes for a safer portfolio. Mid-year we decided to reduce risk in bonds by returning to shorter maturities, which we believe was a prudent move for the fixed income portion of client portfolios.

The 10 Year Treasury closed 2019 yielding approximately 1.8%. The year-long move lower in yields drove the Barclays Aggregate Bond index returned of 8.7% for 2019. Shorter term fixed income returned approximately 3% for the year while corporate and high yield positions (or junk bonds) returned just above 14%.

1099s. When 1099s are issued, they are coded by the issuing firm. Even if the code is wrong, the financial institution (in our case Fidelity) will not change or reissue the 1099. It is our understanding that all financial institutions are now essentially the same. They have gone to a more generalized coding system and will not correct and/or reissue the 1099. The taxpayer or tax preparer, in order to change the 1099 code instructions, must go to IRS.gov to get the IRS form to make the change.

We recommend that you consider waiting until March 15 to file your return as on occasion there are revisions in the 1099s. Unfortunately, on rare occasions, we have even seen data corrections after March 15. Please understand that all of the financial institutions involved do their best to provide accurate data, but 1099s are generally sent by the end of January and unfortunately sometimes that data requires revision.

ADV Document. We are happy to provide you with a copy of our "ADV," which is our disclosure document that we file annually with the U.S. Securities and Exchange Commission (SEC). You can also view it on the SEC's website at www.sec.gov and there is a link to it on our website. We are also pleased to provide our confidentiality statement and code of ethics. We are happy to mail you one upon request or you can view it on our website at www.wcamg.com.

Discretionary Management. As you know, we are discretionary money managers and we will endeavor to shift your portfolio to find the very best investments within the risk parameters of your chosen model. But as such, we do not call our clients to talk about what is a good idea or what to buy or sell. We are fee-only and operate as discretionary investment portfolio managers to act on your behalf. Please remember that you give us guidance on your risk tolerance and objectives and we try hard to manage to those criteria. If you wish to change your risk profile or objective (i.e. become more or less aggressive with stocks), do not hesitate to call us at 336-998-7000 to discuss your needs and requirements.

Required Minimum Distributions (RMD). For those of you 70 ½ or over this year, you are aware of the IRS RMD requirements for your Individual Retirement Account (IRA). Explanatory materials for RMDs have already been mailed to you for this year. It included a sheet that details your minimum distribution amount. The Federal penalty for not taking an RMD is a very-high 50%.

Online Access to Your Account. Our website, www.wcamg.com, is the best way to access your account online. Simply click on the "Fidelity" tab and set up your username and password in order to view your account.

If you have any other questions about your account or any concerns, please give us a call at 336-998-7000. We always enjoy talking with our clients.