

## One or Two Rate Hikes in 2019?



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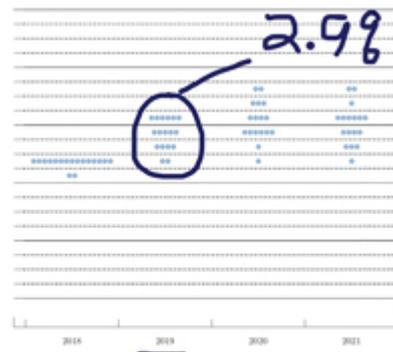
*Special note: Our offices will be closed on Monday and Tuesday both next week (December 24 and December 25) and the week after (December 31 and January 1). On behalf of everyone at AAI, we wish a merry Christmas to the many of you who will be celebrating the holiday and a happy, healthy and prosperous New Year to all of you.*

The Federal Reserve's dots are back to being a subject of conversation following yesterday's Federal Open Market Committee (FOMC) meeting. Each dot on the top chart displayed to the right (click to enlarge) represents a committee member's forecast for future rate hikes. The higher the stack of dots is for a given year, the greater the disagreement between Fed officials about where rates will be. This chart is updated quarterly and can be found, along with other projection materials, on the [Federal Reserve's website](#). The median forecast following yesterday's meeting was for a fed

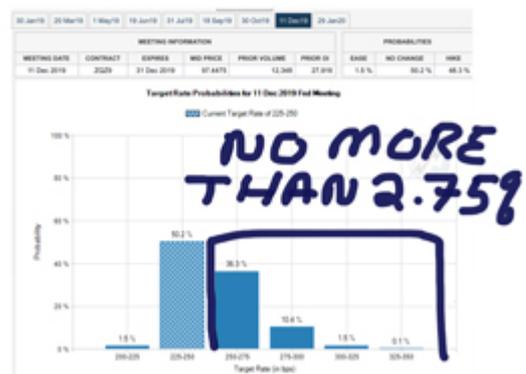
funds target rate of 2.9%, equivalent to two hikes

## INTEREST RATE FORECASTS

### FED DOTS



### CME FEDWATCH



The dot plot is not the only interest rate forecast widely available to the public. You can also look at the Chicago Mercantile Exchange's (CME) [FedWatch Tool](#). This bar graph—the lower chart on the right—calculates the probabilities of what the FOMC's fed funds rate will be following a scheduled meeting. The probabilities are based on the trading activity of fed fund futures. Whereas the dot plot shows the expectations of FOMC members, FedWatch shows what traders think will happen. The odds of a second rate hike occurring were 12% as of this morning.

Like all forecasts, both change over time. Just because forecasts currently suggest we'll see one (FedWatch) or two (dot plot) rate hikes in 2019, doesn't mean we will. Both are just probabilities based on current information and expectations. Any strengthening or weakening in both inflation and the pace of economic expansion will alter both forecasts. Anyone who projects how many rate hikes will occur with a high level of conviction has chosen to ignore how cloudy their crystal ball is.

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## AAll Model Portfolio Update

The quarterly review of our [Model Shadow Stock Portfolio](#) resulted in the removal of two stocks and the purchase of a third. AutoWeb Inc. ([AUTO](#)) and SigmaTron International ([SGMA](#)) were removed because both had trailing 12-month losses for two consecutive quarters. The proceeds from the sale of both stocks were used to add VSE Corp. ([VSEC](#)). The buy rules for the portfolio suggest AAll members pay no more than 10% above the stock's price-to-book ratio of 1.0, which equates to a maximum of \$32.37 based on VSE Corp.'s price as of November 30, 2018.

The Model Shadow Stock Portfolio was down 15.5% year to date as of the end of November. This compares to a year-to-date gain of 5.0% for the Vanguard S&P 500 Index ([VFINX](#)). Since its inception in 1993, the Model Shadow Stock Portfolio has returned 14.6% annually versus 9.4% for VFINX.

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### More on AAll.com

- [The Traits and Processes That Lead to Better Forecasts](#) - To be good at forecasting, a person must be both open-minded and possess the ability to distinguish between many degrees of uncertainty.
  - [Follow the Fed, but Be Smart About It](#) - Periods of tightening monetary policy have historically been accompanied by lower returns for large- and small-cap stocks.
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### Highlights from this month's *AAll Journal*

- [The SEC Wants to Hear From Individual Investors](#) - The agency has created a "Tell Us" page to get feedback about specific topics and initiatives.
- [The Individual Investor's Guide to Personal Tax Planning 2018](#) - Our annual tax and financial

planning guide has been updated to help you understand how the new law will impact your 2018 and 2019 taxes.

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## AAll Sentiment Survey

Optimism and pessimism remain outside their typical ranges: bullish sentiment is unusually low and bearish is unusually high. Historically, **both have been followed by higher-than-median six- and 12-month returns** for the S&P 500 index, particularly unusually low optimism. **More about this week's results.**

### **This week's results:**

- Bullish: 24.9%, up 4.0 points
- Neutral: 27.8%, down 2.4 points
- Bearish: 47.3%, down 1.6 points

### **Historical averages:**

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

Take the [Sentiment Survey](#).

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## What's Trending on AAll

1. [Do the Top ETFs Continue to Outperform?](#)
  2. [The Individual Investor's Guide to Personal Tax Planning 2018](#)
  3. [The Top Mutual Funds Over Five Years: Tech Takeover](#)
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## The Week Ahead

The U.S. financial markets will close early on Monday: 1:00 p.m. Eastern Time for the stock exchanges and 2:00 p.m. Eastern Time for the bond markets. The U.S. financial markets and banks will be closed on Tuesday in observance of Christmas.

The deadline for taking required minimum distributions (RMDs) is coming up soon, December 31, 2018 (a week from Monday). Many brokers will allow you to automatically deposit your RMDs into a bank account, which can help you avoid missing the deadline.

Due to the holidays, no members of the S&P 500 will report earnings next week.

The week's first economic report will be the October S&P CoreLogic Case-Shiller home price index, which will be released on Wednesday. Thursday will feature November new home sales and the Conference Board's December Consumer Confidence Index. November international trade and November pending home sales will be released on Friday.

The Treasury Department will auction \$40 billion of two-year notes on Monday, \$18 billion of two-year floating rate notes and \$41 billion five-year notes on Wednesday and \$32 billion in seven-year notes on Thursday.

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## Local Chapter Meetings

AII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the opportunity to meet other AII members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

[Upcoming Meetings »](#)