PORTOLA CREEK

A California-Registered Investment Advisor

Q4 2018 Quarterly Commentary

Table of Contents

Cover: *Squaw Valley, California.*

Left: *Portola Creek's San Francisco Office.*

Learn what makes a company rate high in **Environment ›**

Environmental Resolutions in Action

California's Air Resources Board voted to require all public agencies to buy zero-emission buses starting in 2029.

Image: GreenBiz

Image: Chicago Tribune

Alphabet Inc.'s Google has agreed to buy electricity from a Taiwanese solar company, adding to its clean energy portfolio of solar and wind projects.

Speaker Nancy Pelosi indicates she will place climate change atop her party's agenda in the U.S. House of Representatives.

U.S. wind and solar companies are eyeing **Maine** and **New Mexico**, where newly elected Democratic governors plan to support clean energy development.

Xcel Energy, the first major U.S. utility owner, to phase out carbon-dioxide emissions by 2050, utilizing renewable energy and emissions-catching technologies.

Learn what makes a company rate high in **Social** ›

Social Responsibility in Action

Proctor & Gamble's Gillette launched a controversial ad calling out toxic masculinity, with reaction following political party lines.

Image: *Gillette*

Goldman Sachs recently invested $100 million in women-led companies to address a lopsided ecosystem for entrepreneurs.

Impossible Foods is close to receiving FDA approval to sell an uncooked version of its plant-based burger directly to consumers.

Toys "R" Us workers who lost their jobs when the retailer collapsed will be eligible for relief from a $20 million fund begun by **KKR** and Bain Capital, the two buyout firms that took over the company.

Microsoft intends to boost diversity in its workforce by making inclusion a "core priority" for employees and factoring how well they meet that standard into their compensation package.

Learn what makes a company rate high in **Governance** ›

Corporate Governance in Action

House Democrats are expected to introduce a bill in the new Congress that would require publicly-traded companies to disclose their political contributions.

Image: *The New York Times*

Image: *The New York*

In an effort to demonstrate oversight to securities regulators, **Tesla** has appointed Larry Ellison and Kathleen Wilson-Thompson to its board.

Image: *Fortune*

Prudential Financial agreed to voluntarily report how closely it follows corporate governance principles set by the Investor Stewardship Group.

Image: *Garrison Everest*

State Street, Nuveen, and state pension funds with over $4 trillion in combined assets are pressuring gun manufacturers and sellers to make firearms safer, more secure, and easier to trace.

Image: *Medium*

BlackRock's Michelle Edkins, global head of their investment stewardship, announced that she is sick of excuses from companies without female board members.

Quarter in Review

The fourth quarter of 2018 was a period that we are happy to see come to an end. The S&P 500 Total Return Index recorded a negative return for the year, down 4.4%, breaking a nine-year winning streak. Leading up to the fourth quarter, US equities had been positive for most of the year, driven by strong economic data and corporate tax cuts. Unfortunately, trade tensions and a slowing global economy drove markets down sharply. For the quarter, the S&P 500 fell 13.5%, which was worse than developed international markets (-12.5%) and emerging markets (-7.5%). Oversupply issues and weakening demand sent oil prices tumbling 40%.

By historical standards, the magnitude of the declines were not severe, but it proved challenging to find a hedge in a “risk off’ environment. For the year, US stocks, international stocks, oil, and gold were all negative. Thankfully, bonds ended the year generally flat and private investments, including real estate, have continued to generate healthy returns.

Economic data was a mixed bag. While GDP growth slowed from 4.2% to 3.4% during the quarter, it was still the second highest reading in 4 years, largely driven by consumer spending. The December jobs report was stronger than expected in December, but the unemployment rate rose from 3.7% to 3.9%. We have now witnessed three consecutive months of 3% wage growth, which will most certainly catch the attention of the Fed. Most importantly, we saw signs that trade tariffs may be affecting the economy as new business, production, and business confidence data hit their lowest numbers in two years. The 10-year Treasury yield dipped to 2.69% as investors looked for safety in bonds.

The Fed raised the federal funds rate in December a quarter percentage point for the 4th time in 2018. At the same time, the Fed lowered inflation and growth expectations for 2019 and reduced the number of projected hikes in 2019 from three to two. This was not enough to distract investors worried about a slowing global economy.

Investment Outlook

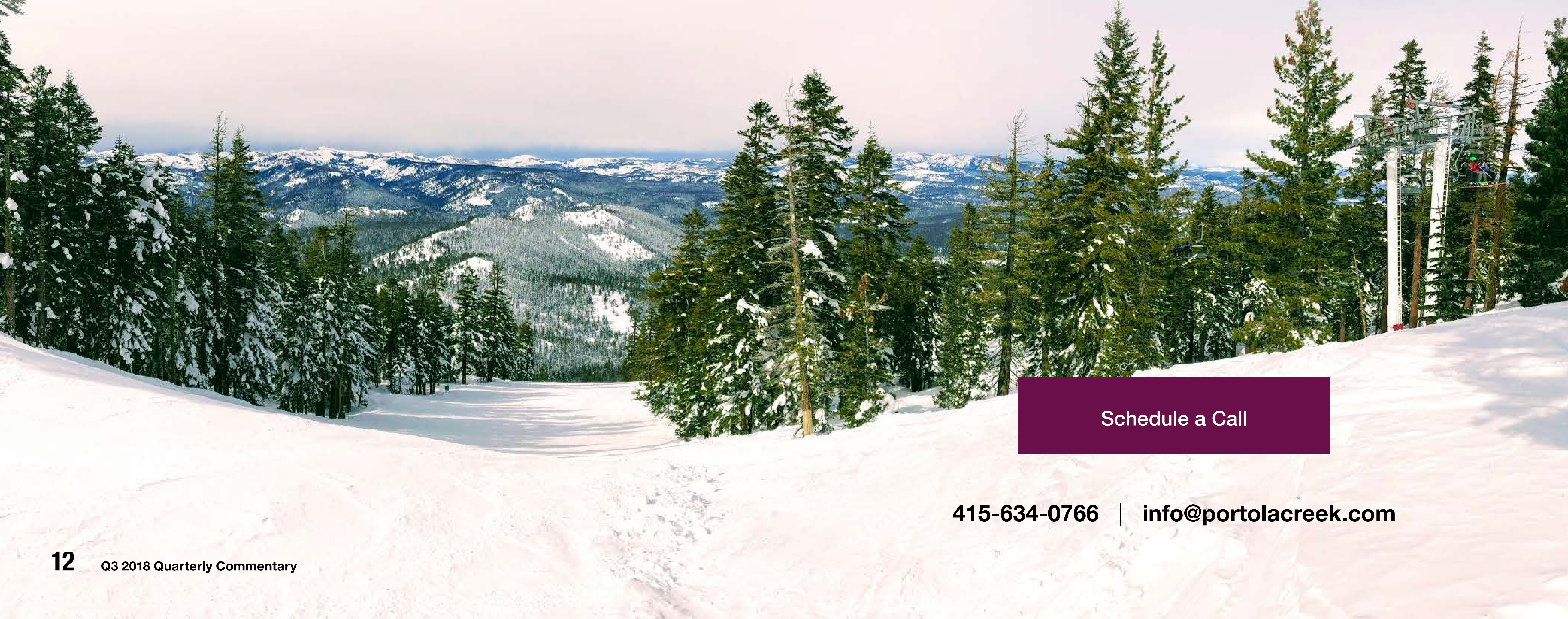
As long as investors are weighing the likelihood of a real slowdown in global economic growth, we will experience market volatility. However, this volatility is quite normal and with it comes opportunities for new investment dollars. At the moment, many economists are predicting a recession sometime in 2020, which would place even more importance on the Presidential Election next year. However, these are largely the same economists that also expected a recession in 2017, and in 2018. This reminds us of the old saying, “hey, a broken clock is right twice a day”.

We maintain our belief that this bull market deserves its place as the longest run on record because of the long, slow, sustained rate of growth during this decade. The shape of the bond yield curve and declining oil prices certainly give us pause, but there is enough strong economic data for our optimism. The unemployment rate remains around its all-time lows, corporate balance sheets and profits are solid, and inflation remains in check.

The market decline in Q4 made equities more attractive than they were a few months ago. The forward Price-Earnings ratio of the S&P 500 is now at 15 which is compelling when we consider today’s low interest rates.

We are mindful that other metrics like Price-to-Sales or the market’s value compared to GDP show less value in equities, but many of the highest-price stocks have come back to earth. International stocks are trading at even lower valuations and may provide significant opportunities for investors once trade concerns are alleviated.

We admit that it is easy to become consumed by the news of each day, especially the chaos in the White House. Yes, it can be absolutely exhausting. But at the end of the day, it probably matters less “who” is president and more where we stand on taxes, tariffs, and national security. We don’t know the exact path towards resolution on all these matters, but history tells us they will indeed work themselves out. The larger market forces that drive economic cycles domestically and abroad are where we will focus our attention. Diversification, active portfolio management, and patience will win the day.



Schedule a Call

415-634-0766 | **info@portolacreek.com**

Can we help you?

Let's schedule an introductory meeting so that we can learn more about your objectives.

Schedule a Call

415-634-0766

info@portolacreek.com

Follow Us:

Our Office Locations:

San Francisco
44 Tehama Street
San Francisco, CA 94105

Santa Barbara
1117 State Street
Santa Barbara, CA 93101

Our Services:

Portfolio Management
Tax Planning
Small Business
Wealth Transfer
Decision Analysis
Insurance

Services

Right: Santa Barbara, CA.