



January 23, 2019

"I hope that in this year to come, you make mistakes. Because if you are making mistakes, then you are making new things, trying new things, learning, living, pushing yourself, changing yourself, changing your world... So that's my wish for you, and all of us... Make new mistakes... Don't freeze, don't stop, don't worry that it isn't good enough, or it isn't perfect, whatever it is: art, or love, or work or family or life. Whatever it is you're scared of doing, Do it. Make your mistakes, next year and forever." - Neil Gaiman, author

If 2017 was the calm, 2018 was the storm. After 2017's historic tranquility, the market turbulence in the first nine-months of the year felt abnormal, but wasn't – the last quarter was. The stock market delivered its worst 4th quarter in 31 years.¹

For the year, Equity prices were down across the board: U.S. – 6.2%, International -16.5%, and Emerging Markets -16.6%. Fixed Income ranged from small losses to modest gains: U.S. Corporate Bonds were even, Municipal (tax-free) Bonds +1.4% and Global Bonds -1.2%. Oil and natural gas prices dropped sharply leading Commodities down -11.3%. Traded Real Estate indices were down -4.2%.²

Though the market's most important message was delivered in the 4th quarter, the market behavior earlier in the year caught our attention and we began making adjustments. Along with the routine rebalancing of your portfolio we began adding more actively managed holdings. Historically, as markets enter the later stages of a cycle, security selection can take center stage and provide active investment managers an opportunity to outperform their respective passive benchmarks.

In anticipation of slower economic growth we increased our bond holdings and added high dividend paying stocks. We reduced or eliminated underperforming securities and those which may fare less well going forward in such an environment. The timeline of key 2018 adjustments:

February:

- Deleted all Small-Cap stocks (passive)
- Added Emerging Markets (active mgt.)

June:

- Reduced Commodities / Hedge
- Reduced Managed Futures / Hedge
- Added Small-Cap stocks (active mgt.)

July:

- Deleted Energy holding
- Reduced US All-Cap stocks (passive)

- Added US Large-Cap stocks (active mgt.)
- Increased US bonds (active mgt.)
- Reduced Arbitrage / Hedge
- Reduced International stocks

November:

- Deleted all Small-Cap stocks (active mgt.)
- Deleted all Managed Futures / Hedge
- Deleted all Commodities / Hedge
- Added Preferred stock



In sum our adjustments were to help your portfolio during the 4th quarter stock market sell-off.

The overall economy remains healthy as we begin the year with consumer and business confidence high, job growth strong and interest rates appearing to moderate.³

While profit growth will slow considerably from 2018's exceptional 20%+ pace, actual S&P earnings per share should continue to grow.⁴ As noted above, our individual small company (small-cap) stockholding was sold and we are emphasizing large-cap stocks in our equity sleeve. Through 2018 we were overweight U.S. stocks but less so than in 2017. For now we remain near benchmark (neutral) levels for each investment objective but with increased high dividend paying, less volatile preferred stocks.

We anticipate decreasing long-term bonds and increasing shorter-term bonds because we expect long-term bond yields to drift higher from their current 2.8% to 3.2% or higher. Recall bond prices decrease when interest rates increase. With short-term interest rates approaching longer-term rates we think this makes sense. We continue to favor high quality bonds.

With the sharp sell-off in energy prices, commodities would seem poised to move higher. Yet OPEC nations can't seem to agree on reducing oil supply at a time when slowing global economies may impact demand. We are watching Gold which has historically risen when the US dollar falls. The dollar remains strong but if the fed curtails interest rate hikes later in the year, the dollar could weaken.

Within the constraints of your specific investment objective we will be adjusting your portfolios. We remain in a Deflationary Boom scenario (stable inflation / growing economy) that favors Equities. This overarching theme will guide our asset allocation until it changes.

As always, we will continue to use diversification, our investment methodology and sensible judgement to follow the market's price action throughout 2019.

Finally, we wish you and yours health, peace and contentment in the New Year.

Sincerely,

Robert J. Boronski, MBA, CFP®

¹ "How Q4 ranks among worst 20 quarters", Schroders 2-Jan 2019, Q42018 -13.7% v. Q41987 -15.9% ² S&P 500, MSCI EAFE & MSCI Emerging Market indices, Bbg Barclays US Agg Bd TR, Bbg Barclays Global Agg TR USD, Bbg Barclays Municipal 10 Yr TR, Bbg Commodity TR USD, DJ US Select REIT TR USD ³ The Independent Market Observer Blog, Economic Risk Factor Update January 2019 ⁴ Yardeni Research, S&P 500 earnings forecast, Jan. 14, 2019

All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges or expenses. Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification Does not assure a profit or protect against loss in declining markets, and diversification cannot guarantee that any objective or goal will be achieved.