August 19, 2019

Re: **BFSG Conference Call September 3, 2019 at 6:30 P.M.**

Dear client,

The trade war is likely to get worse before it gets better which may cause some heartburn for stocks. Hard to believe with the U.S. economy doing so well that the Fed needs to cut interest rates. Cheap money has become an elixir for the stock market[1], and it will be cheap money that fuels it. Outside the United States global growth is sluggish at best and that is putting upward pressure on the U.S. Dollar. A rising U.S. dollar is akin to a rise in interest rates.

Although the Fed is behind the curve and interest rates may be a little tight, a recession is most likely not in the cards in the immediate future, but global growth is weakening at an accelerated pace. However, a recession may arrive if the trade situation doesn't get any better. China is not the only trade spat with Europe and India being in the President's line of sight.

Global equity markets will most likely be stuck in a risky spot until the Fed and China economic policies sufficiently reflate. At a minimum global volatility will persist with the odds rising of more downward action, at least temporarily. We are moving to Stage 2 in our portfolio protector by adding more gold, some silver, and Japanese Yen.

Some of the problems affecting the stock market are a global manufacturing recession, continued trade wars, ebbing fiscal stimulus, and continued global political turmoil, none of which will be solved overnight.

As you may recall I reduced the equity asset allocation of the portfolios in June 2018 when I said that the trade differences between the United States and China wouldn't be solved soon. This has come to pass, and I still don't see the U.S. and China fully resolving most of their differences any time soon.

I am of the opinion that our investments are in good shape to weather the storm. We have a large mix of bonds and defensive stocks that should do well under such a scenario. Although we are buying a few stocks here-and-there, we are exercising near term caution. Capital preservation is key. The end point is bullish, but only after the Fed lowers interest rates, China stimulates their economy, and the trade war ends. The market may need to riot before this happens.

Technology stocks like PayPal, Elbiut Systems, CyberArk and Marvel are far from cheap, but in a growth starved world they should be sought out. Interest rate sensitive and defensive issues like Weyerhaeuser, Potlatch, Rayonier, Dominion and NEE offer a deflation hedge.

Falling interest rates outside the United States is bullish for gold even if the U.S. dollar goes up. Gold could possibly go vertical when the Fed catches up by slashing interest rates. Therefore, we believe gold is suitable as part of a portfolio protector.

We invite you to tune into our next conference call on **Tuesday, September 3, 2019 at 6:30 p.m**. To join the conference call, **please dial the toll-free number: 1-800-914-8405. Once prompted, enter the access code: 5486434, followed by the # button**.

Best regards,

Steven Yamshon

Investment Counsel

1. The S&P 500 is designed to be a leading indicator of US equities and is commonly used as a proxy for the U.S. stock market.

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