PENNIALL PERSPECTIVE

April 2019

2019 started with a bang. All broad based stock and bond market indices finished the quarter strongly higher. It's difficult to find a country that experienced negative performance – all developed markets were positive and only three emerging market indices finished in the red (Poland (-0.11%), Qatar (-2.29%), & Turkey (-2.75%). It's tempting to draw conclusions or worse yet, make predictions from such broad market movement however, one quarter does not make a trend. Sound investing requires diligent planning and remaining patient, flexible and well-advised.

Sailing with the Tides[1]

A mistake many inexperienced sailors make is not having a plan at all. They embark without a clear sense of their destination. And once they do decide, they often find themselves lost at sea in the wrong boat with inadequate provisions.

Likewise, in planning an investment journey, you need to decide on your goal or goals. A first step might be to consider whether the goals are realistic and achievable. For instance, while you may long to retire in the south of France, you may not be prepared to sacrifice your needs today to satisfy that distant desire.

Once you are set on a realistic destination, you need to ensure you have the right portfolio to get you there. Have you planned for multiple contingencies? What degree of "bad weather" can your plan withstand along the way?

Key to a successful voyage is a good navigator. A trusted advisor is like that, regularly taking coordinates and making adjustments, if necessary. If your circumstances change, the advisor may suggest you replot your course.

As with the weather at sea, markets can be unpredictable. A sudden squall can whip up waves of volatility, tides can shift, and strong currents can threaten to blow you off course. Like a seasoned sailor, an experienced advisor will work with the conditions.

Once the storm passes, you can pick up speed again. Just as a sturdy vessel will help you withstand most conditions at sea, a well-diversified portfolio can act as a bulwark against the sometimes tempestuous conditions in markets.

[1] Adapted from Sailing with the Tides by Jim Parker, published on the Dimensional Funds Website.

Circumnavigating the globe is not exciting every day. Patience is required with local customs and paperwork as you pull into different ports. Likewise, a lack of attention to costs and taxes is the enemy of many a long-term financial plan.

Distractions can also send investors, like sailors, off course. In the face of "hot" investment trends, it takes discipline not to veer from your chosen plan. Like the sirens of Greek mythology, media pundits can also be diverting, tempting you to change tack and act on news that may already priced in to markets.

A lack of flexibility is another impediment to a successful investment journey. If it doesn't look as though you'll make your destination in time, you may have to extend your voyage, take a different route to get there, or even moderate your goal.

The important point is that you become comfortable with the idea that uncertainty is inherent to the investment journey, just as it is with any sea voyage. That is why preparation and planning are so critical. While you can't control every outcome, you can be prepared for the range of possibilities and understand that you have clear choices if things don't go according to plan.

If you can't live with the volatility, you can change your plan. If the goal looks unachievable, you can lower your sights. If it doesn't look as if you'll arrive on time, you can extend your journey.

Of course, not everyone's journey is the same. Neither is everyone's destination. We take different routes to different places, and we meet a range of challenges and opportunities along the way.

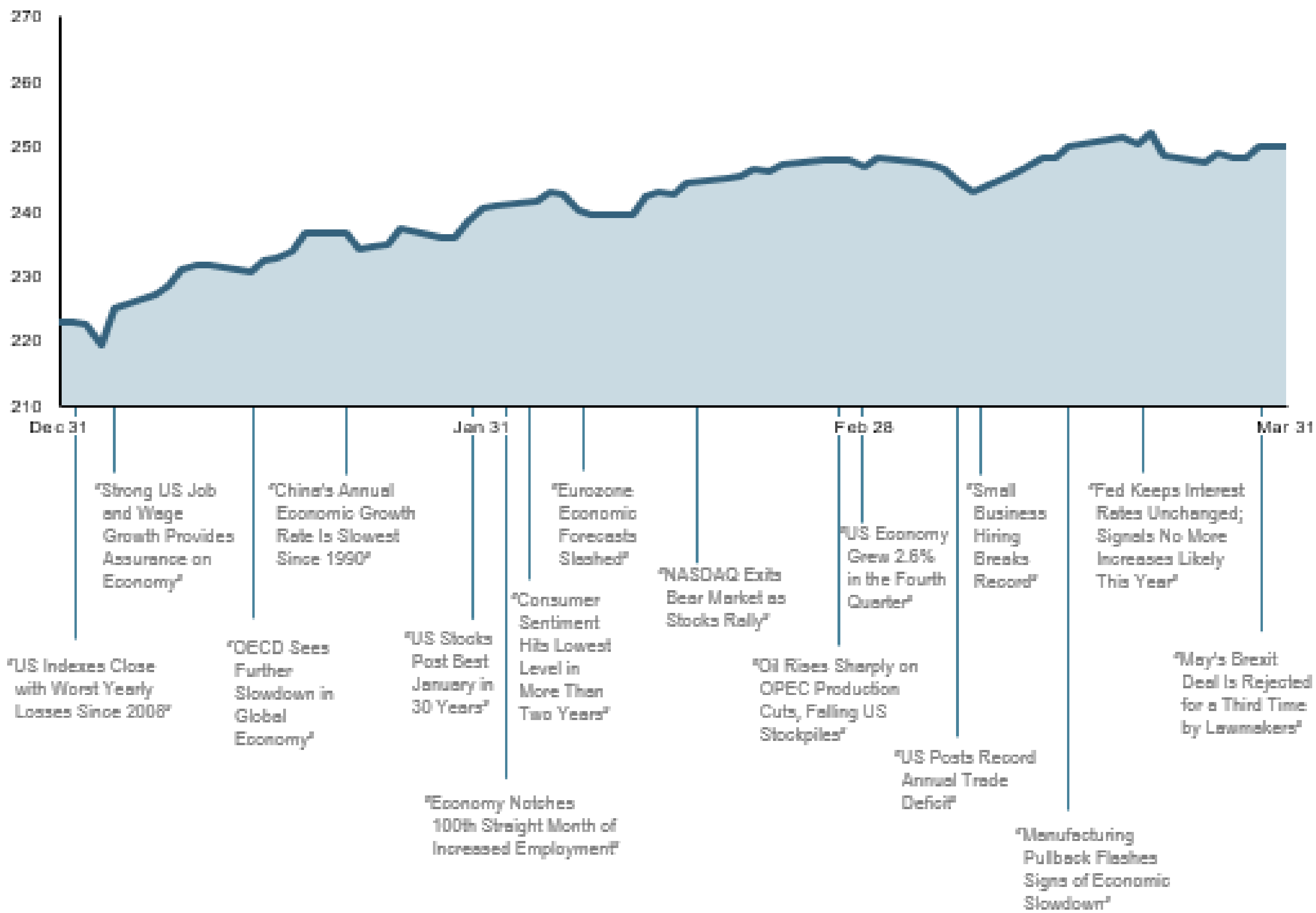
But for all of us, it's critical that we are prepared for our journeys in the right vessel, keep our destinations in mind, stick with the plans, and have a trusted navigator to chart our courses and keep us on target.

Market Updates – Quarter in Review

Judging by the strong market returns in the first quarter, it is hard to believe that the global economic picture has weakened but keep in mind, we have not yet reached the market highs touched in 2018. The stories that set the backdrop for the quarter are largely the same headlines we have heard for a while now – Brexit continued to confound leaders in the UK, the US trade war with China inched toward a resolution or at least did not get worse and Congress is still bitterly divided and not accomplishing much. As mentioned in the opening paragraph, global equity markets delivered positive returns through March, resulting in a 13.65% return for the S&P 500 and 10.31% return for the MSCI All Country World ex USA Index.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2019



On Stocks

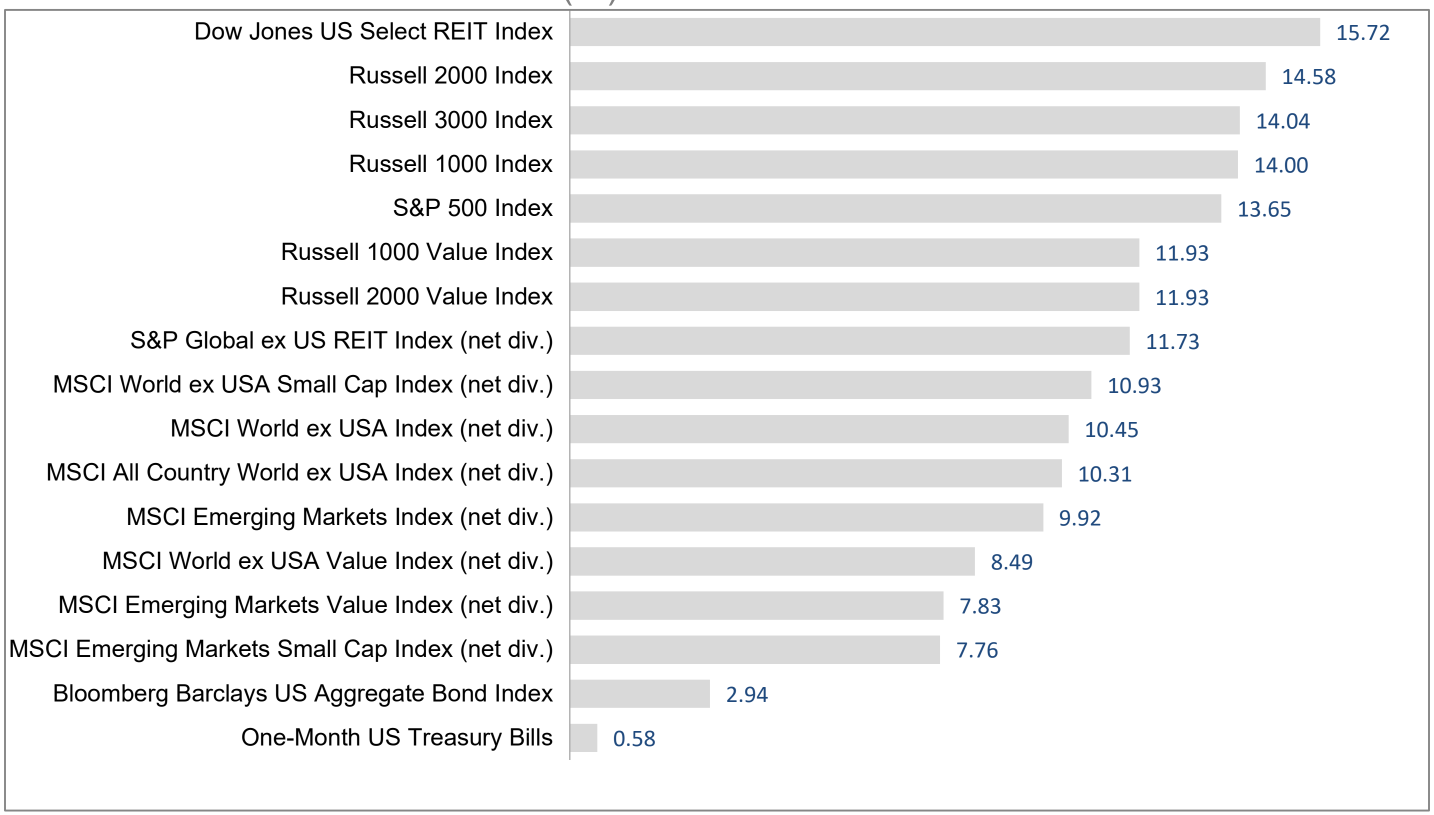
Developed market returns ranged from 7.06% in Spain to 15.21% in Hong Kong and double-digit returns were the norm. US stocks finished the quarter 13.99% higher. Within the US, smaller companies outperformed larger companies. The same was true in international developed markets while larger companies fared better in the emerging markets. Currency movements were mixed with respect to non-US Dollar assets - The British

Pound and Canadian Dollar reversed course when compared to 2018 and rose vs the US Dollar. The Euro and Japanese Yen both lost ground against the Dollar. As a reminder, if the US dollar rises vs a country's currency then such a movement detracts from market performance in the country.

Real estate investments, also commonly referred to as Real Estate Investment Trusts (or REITs) followed stocks higher both here in the US and around the world posting returns of 15.72% and 11.73%, respectively. US REITs were the best performing asset in the quarter.

World Asset Classes

First Quarter 2019 Index Returns (%)



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On Bonds

Interest rates on US Treasury bonds decreased marginally across the maturity spectrum as the Fed announced it was pausing any further interest rate increases. A falling interest rate environment is generally positive for the bond markets since prices rise when interest rates fall. As a result of the declining rates, the Bloomberg Barclays US Aggregate Bond Index returned 2.94%. Non-US fixed income markets also posted positive returns in the quarter, contributing to the return of the Bloomberg Barclays Global Aggregate Bond Index (hedged to USD) at 2.99%.

Interest rates in the developed markets around the world also generally decreased during the quarter and longer-term bonds generally outperformed shorter-term bonds. Nominal rates (rates before inflation is taken into account) in Germany and Japan are negative out to approximately 10 years. In the corporate bond market, short-term corporate bonds gained 1.83%. Intermediate-term corporate bonds had a total return of 3.82%.

Yield curves generally remained upwardly sloped throughout the quarter, however certain parts of the curve were “inverted” for a short period and at the end of the quarter short-term rates in the US were higher than longer-term rates. Inverted yield curves occur when shorter-term interest rates are higher than longer-term rates and such an environment, if persistent, is often seen as a negative predictor for the economy. As of this writing the yield curve is back to an upward slope.