May 9, 2019

Dear client,

Re: **Market Update and Upcoming Conference Call on May 14, 2019**

This week, we took steps to reduce our overall exposure to the stock market in case the trade negotiations go badly. The trade talks could go badly, but they also could strike a deal. No one really knows what will happen. Our colleagues at BCA Research lay the odds of a deal at 50/50. So in anticipation, we did some housekeeping by selling a couple of weak stocks that did not participate in the recent spring rally because I was worried that those particular stocks would continue to decline. I have better places to put the money to work. The market has been churning as of late and I think the market is signaling some problems ahead. I believe that we prudently acted for the uncertainty that the market faces especially when the stock market is back to being overvalued. High valuations and trade wars don't mix well. This Friday, May 10th will be a critical day in the markets and it will be a judgment day in terms of China trade relations. Add to that, the market will have to absorb all of the stock generated by the Uber IPO. Right now, cash and bonds are our friends.

After our cash raising efforts that reduced stock market exposure, I feel more comfortable about the amount of capital that we have in bonds and on the sidelines ready to invest. It gives us flexibility. Although we are most likely done with our sales, we have to keep an eye on what is going on in the global markets and economy. Even though we always keep a longer-term view with our stocks, from time to time, we need to reduce equity exposure so we can manage for risk. This was one of those times. I want to preserve (if possible) all the gains that we have made.

If I think that stocks are cheap, we will keep cash balances low and have a high allocation to stocks. We always own bonds because they cushion any market downturn and provide us with good rates of interest. Conversely, when the market valuations become stretched like they did in January 2018, and right now, then we will reduce our exposure. After the December 2018 market rout, the market came back too quick and too fast. At the current moment, there is more downside risk than upside gain and our best position right now is in cash and bonds. This is not to say that I won't nibble here and there on a few things - if the trade issue gets resolved. PayPal is a stock that I love and we have had a solid run with it. However, it is volatile and it became too large of a percentage of the portfolios as the stock increased in price. Therefore, I sold some PayPal but kept, on average, a 4% position. I took some profits off the table. Although we bought Nvidia not too long ago, there is a risk that the stock could retest the December lows. They have a 23% exposure to China and I did not want to take the chance that the stock could decline from its current price of $173 to $130. Once things clear up, we may buy it back again, hopefully, at much lower prices.

The current U.S. stock market is now starting to act like last year. I am not saying we are due for a selloff, but it illustrates how I balance short-term and long-term views. We are generally sitting tight because there are plenty of uncertainties in this market that have become too difficult to judge. The two biggest risks I see are the uncertainty around tariffs and Chinese trade and the Uber IPO.

We invite you to tune into our next conference call on **Tuesday, May 14, 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.**

All the best,

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Investment Counsel