December 17, 2019

Re: **<u>BFSG Conference Call January 7, 2020 at 6:30 P.M.</u>**

Dear client,

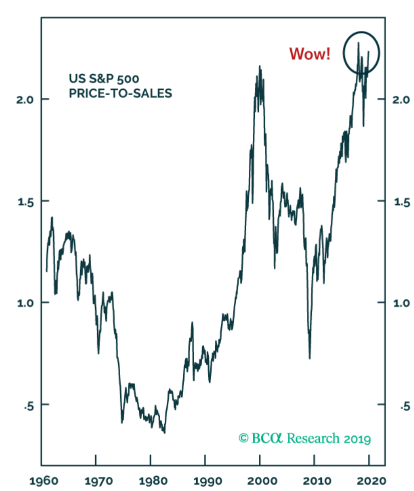
Now that it looks like the U.S. has a trade truce with China, President Trump may be emboldened to step up the trade fight with Europe. Last month, the President threatened to slap punitive tariffs of European wine, cheeses and other goods in retaliation for Europe imposing taxes on Google, Apple and Facebook. Already upset with Argentina and Brazil, the President has ordered tariffs on those countries' steel exports to the U.S. However, all of this is minor compared to the temporary cease fire between the U.S. and China.

Easy money from the U.S. Federal Reserve gives me confidence that the economy will continue to expand and that stocks should continue to rise in 2020 despite trade issues. Therefore, we have been slowly increasing our stock exposure as a result. Fed Chairman Powell made it clear that the banks' most likely course in 2020 will be to keep rates at approximately the same level they are today. This leaves the economy in a double indemnity situation. On one hand, the growth of the economy is mushy, but on the other hand, the unemployment situation is overheating. Even though the economy has a dichotomy, it is most likely that the Fed will not have to raise interest rates until 2021 or 2022, and certainly not in an election year.

In the rest of the world, it appears that global growth is starting to improve. This is especially true in Europe. In this type of environment, cyclical stocks typically outperform defensive ones. This leads us to increase our exposure to international equities versus the U.S. We have already purchased Eaton (UK), Yum China, and Luckin Coffee (China).

As I have said before, U.S. valuations appear to be stretched and expensive. Markets can continue to be irrational for long periods, but reality eventually catches up to them. The current valuation of the U.S. stock market is higher now than what it was in 2000, the year of the dot-com crash (see Chart 1). That was a crazy time and this time, investors should not buy with abandon. Not only are international stocks cheaper, with global growth accelerating, the returns should be higher than what might be available in the U.S. going forward.

Chart 1 – The S&P Is Very Expensive



We have recently increased our gold exposure for two very good reasons. For one, gold acts as a portfolio protector in times when the U.S. stock market goes down. Second, gold acts as an inflation hedge, which we expect inflation to accelerate in 2021 or 2022 to keep social tensions (income inequality) at a minimum and to keep the U.S. government debt. This policy action will most likely ignite inflation. It will likely take at least until 2021 or maybe 2022 for inflation to rise above the Federal Reserve's comfort zone. However, at some point, we believe the Federal Reserve will have to raise interest rates which will set off a global economic downturn and steep losses in equites. This is why we own WIW, a Treasury inflation protection type of security.

We strive to maintain a balanced approach to investing because we don't want to wipe out our investors. I'm sure many of you have heard about the horror stories of investors losing ghastly amounts of money in the dot-com bubble and also in 2008. A balanced portfolio consists of stocks, bonds, and gold. JP Morgan produced an excellent chart showing the returns from 1998-2018. Chart 2 shows that the return of the S&P 500 from 1998 to 2018 was 5.6% annualized (Point A). However, the return of a 60% stock and 40% bond portfolio (Point B) returned 5.2% and a 40% stock and 60% bond portfolio (Point C) returned 5% during this same time period. For the majority of our managed accounts, we maintain an allocation between Point B and C. To me, this makes sense because it is an excellent return risk tradeoff because you are getting close to an S&P 500 return with less risk.

I hope you have been tuning into Friday afternoons short video segment, "Coffee with Dr. Steve" hosted by our own Katie DeSantis. It is an opportunity for clients and friends to hear my latest thoughts on the markets, economy, and stocks. In the conversations, we talk considerably about stocks and other interesting topics. Katie sends out an email to your inbox so you can easily access the conversation through a link. If you are not receiving Katie's emails and would like us to send you the link, please email her at katie@bfsg.com. Next week, I will be having Coffee with Dr. Steve on the beaches of Cartagena, Colombia.

Please join me in the New Year at our first conference call on **Tuesday, January 7, 2020 at 6:30 pm**. In this very important conference call, we will be talking about investing themes for the next decade and our increased research collaborations and capabilities.

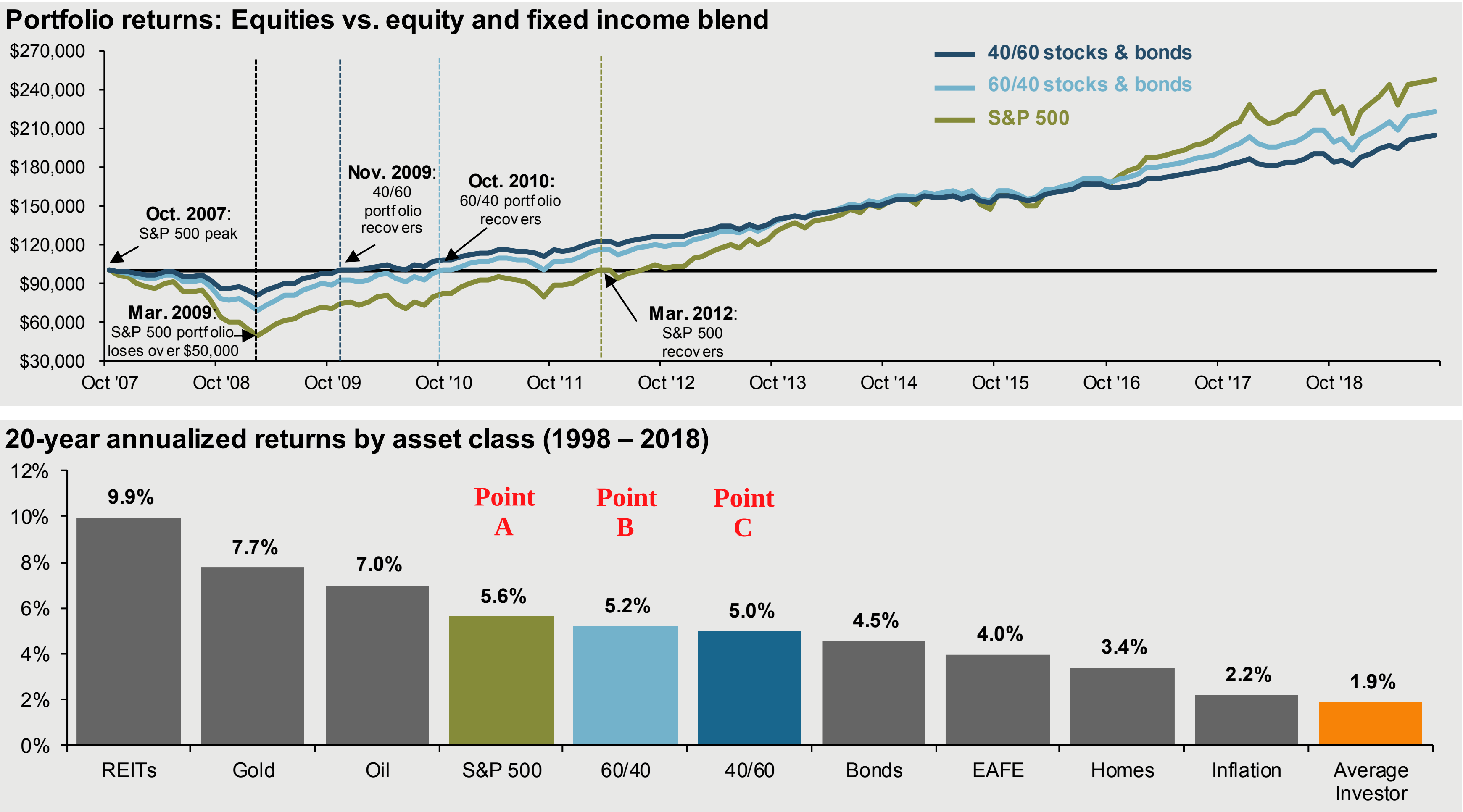
Best wishes for a happy holiday season and thank you for your confidence in us.

All the best,

Steven Yamshon
Investment Counsel

Disclosure:

Chart - 2



Investing principles

Source: J.P. Morgan Asset Management; (Top) Barclays, Bloomberg, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.
Indices used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Bloomberg Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz., Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/18 to match Dalbar's most recent analysis.
Guide to the Markets – U.S. Data are as of September 30, 2019.

J.P.Morgan Asset Management