ADKINS SEALE CAPITAL MANAGEMENT, LLC

Investment Commentary

October 3, 2018

Dear Clients:

Each of you has retained our services as a registered investment adviser ("RIA") with full discretion over the management of the investment assets under our supervision. In April 2013, this firm was formed so that we could serve our clients with independence and objectivity and provide unvarnished advice free from the inherent conflicts involved with working inside the larger investment companies. We embrace the mantra of Jack Bogle, founder of The Vanguard Group, who said "the adviser cannot serve two masters;" our prior experience inside such companies confirms that insight. The investment advisory practice is dealing with at least three major trends in modern investment management – the proliferation of stock index investing, the rise of automated portfolio administration (aka Robo Advising), and the promise of above-market returns attributable to illiquid, non-publicly traded investment vehicles. Below is our view on each of these in the context of our fiduciary duty to you the client.

It is an "open secret" that nearly all active investment managers of US large company stocks have not generated sufficient returns, net of fees, to out-perform a comparable, investable index such as the S&P500 Index. Our firm embraces this evidence, particularly over full market cycles and multi-year time horizons and for market segments with many active investors seeking price discovery, a highly liquid exchange system, and a well-defined constituency of issues. Index investing (aka passive) works precisely because of the preponderance of active investors rather than in spite of them. We think the evidence is less compelling for asset markets either less efficient or not easily delineated. Historically, a select number of active investment managers in stocks of smaller US and non-US based companies, bonds, real estate, minerals, and other non-traditional assets have generated returns, net of fees, in excess of comparable benchmark indices. Our approach seeks a favorable blend of passive and active strategies for each investment segment, with full expectation that passive allocations increase as market efficiencies improve.

Today, virtually all of our clients have passively managed equity investments in their portfolios but only a few have passively managed positions in all other segments. For all our clients combined, indexed US equities comprise 42% of total US equities, while indexed non-US equities comprise only 26% of international stocks. Overall, indexed equities comprise about 40% of total equities. If this description seems in conflict with the foregoing comments (and it is), our reasoning for the contradiction reflects our conviction that current stock prices remain unsustainably high largely due to unsustainably low bond yields and the resulting over valuation of "hoped-for" company earnings far into the future. More specifically, the year to date total return on the S&P500 Index through September 30 was 10.6%, with the top 34 stocks in market value (from Apple down to Netflix) comprising about 42% of the index value and generating nearly triple the return of the other 466 stocks. For sure, being invested in the index allowed an investor to participate in those out-sized returns at the top; however, an average earnings yield of near 10% for the bottom 466 stocks as compared to the 2% earnings yield for the top stocks represents an opportunity for active management, at least until the range of valuation metrics narrows. In situations similar to this, our fiduciary duty directs us to take index valuation into consideration in setting portfolio weightings for our clients.

The Implementation of successful investment strategies for unique clients, consistent with the client's goals and objectives, is the highest obligation for the RIA. Such goals and objectives drive the asset allocation strategy which in turn drives the investment result. The well-known standard of 60% stocks and 40% bonds was premised on average annual returns of 10% for stocks and 5% for bonds which resulted in an 8% nominal portfolio return and a 5% real return and annual portfolio spending/withdrawal rate. Today, following nearly ten years of above-average returns for US stocks and far-below average yields on bonds, we hear the drumbeat for higher equity allocations supported by the promise of muted future inflation and the continuation of historically low bond yields. We suspect the rise of "Robo" advising may be riding this very same wave. Robo advising relies on a client questionnaire to "qualify" the client's return preferences and tolerances for account value

variability. From this process, the Robo investment strategy defines a “model” portfolio allocation designed to meet the client’s preferences. For investors comfortable with assessing the reasonableness of return assumptions and forgoing face to face reviews, this process may work out well and with less expense. For others, buyer beware. While giving due credit to the modern advances in data collection and analysis, we embrace the wisdoms of Charlie Ellis (author of Investment Policy) and Benjamin Graham (author of The Intelligent Investor) both of whom counseled on the prudence of buying low and either selling high or never selling, thinking contrarian, and avoiding emotional reactions to market gyrations.

Our investment strategy uses only readily marketable securities with a daily price quote. We believe this approach provides our clients with reasonable access to high quality, active and passive investment vehicles at a reasonable price. In contrast, the recent push by the larger investment companies to distribute private, non-marketable investment vehicles to both large and small clients strikes us as a counter punch to the indexing mantra since all of these structures are actively managed with a correspondingly higher fee structure. We see the lack of transparency and marketability of such vehicles as outweighing the potential for better than benchmark investment results. For sure, time will tell on this front but the attractiveness of the marketing pitch should be clear to all.

Finally, we encourage our clients to spend time reviewing their quarterly performance report which details the allocation strategy, the active versus passive comparison, and the overall portfolio performance, net of fees, compared to relevant market and goals-based indices. We believe the report is designed to measure what matters in pursuit of your investment objectives.

Investment Market Returns as of September 30, 2018

Investment returns for the recent quarter and twelve months ended September 30 continued to benefit from higher prices for US stocks which more than offset weak returns from all other segments. Overall portfolio returns by account and segment are summarized on pages 3-5; beginning on page 6 are investment results for each asset held. For most clients, the segment blended benchmark on page 3 is the most appropriate market benchmark index for comparison purposes to our firm’s actual strategy. The next to last page of the report provides a historical summary of total returns, including dividends, for selected US and foreign indices.

Our Look Forward

As this note is being written, market interest rates are rising and potentially heading back to more “normal” levels. The seeds for higher inflation are beginning to sprout, which is stimulating the US Federal Reserve Board’s “weed controlling” increases in the federal funds rate. Our understanding of historical relationships between stock and bond prices leads us to expect a continued rise in bond yields toward historical levels, say 5% for an intermediate term core bond portfolio. This level would likely provide sufficient compensation for both inflation and duration risk. At the same time, such a bond yield would also suggest an increase in the earnings yield (or a decrease in the price/earnings ratio) for stocks. This is an optimistic expectation on our part, and we look forward to the improved investment environment to follow.

In Closing

We look forward to visiting with each of you about your investment results and expectations for the future and to make sure your portfolios are aligned with your specific circumstances. We greatly appreciate the opportunity to serve as your investment adviser and pledge our best efforts to meet your expectations.

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