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Investment Strategy Update **Fourth Quarter 2019**

Equity market valuations are reasonable and economic reports continue to support below average growth. However, the signs of a possible recession in late 2020 continues to increase gradually as well. We are maintaining a modestly conservative asset allocation relative to each client's personal benchmark.

Robin Smith, CFA, CFS, EA

We are maintaining a modestly conservative asset allocation when compared to each client's personal benchmark. This action is based on a reasonably valued equity market in the United States and a significantly undervalued equity market overseas. World economic growth expectations have continued to drift lower gradually, as U.S. interest rates have fallen precipitously, and foreign interest rates have gone negative in many cases. Our feeling is that there is still a better than 50/50 chance that the U.S. economy will avoid a recession in 2020.

Disappointing reports on manufacturing in the United States have renewed concerns surrounding corporate profits this year and next. This remains a primary concern as we continue to evaluate the chance of a recession in 2020. The impact of a world trade war, what the Fed intends to do over the next 12 months, the potential for a bad ("Hard") BREXIT in the United Kingdom and the lack of progress on a comprehensive infrastructure spending bill are also factors that could help push us into a recession. One positive sign is housing, which is showing some improvement as a result of what the Fed has accomplished with lowering interest rates. However, consumer spending, while strong and holding the economy up, is a lagging indicator and will need to be watched carefully.

We are now better positioned to balance efforts to protect principal with realizing any positive returns available. We continue to more broadly diversify our clients' portfolios in order to minimize their exposure to the potentially negative factors that we see.

Our modestly conservative asset allocation is based on a reasonably valued equity market, balanced against renewed concerns surrounding corporate profits, increased fears of a bad BREXIT in the UK and an expanded trade war. These potential negatives are offset by improvement in the U.S. housing market.

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