

**Second Quarter (Q2) 2019 Review**

July 5, 2019

Stocks posted strong follow-through gains in the second quarter. The S&P 500 Stock ETF (SPY) returned +4.2% in Q2, +18.4% YTD and +10.3% over the past twelve months. 2018 first half performance was the best since 1997. Treasuries and high quality corporate bonds continued to rally with slower global economic expansion and dovish confirmation by the Fed that further rate hikes are on hold. The 10-Year Treasury yield fell to 2.00%, down from 2.41% three months ago. Corporate and high-yield bonds out-performed Treasuries in the quarter, YTD and over the past year.

Along with most economists, the [OECD](#) has ratcheted down global growth expectations to +3.2% in 2019 from +3.5% six months ago. Trade growth is expected to slow to +2.1% from +3.9% in 2018. [Professional forecasters](#) see U.S. Real GDP expanding 1.9% in Q2 and +2.6% in 2019, following a solid +3.1% in Q1 and +2.2%, +3.4%, +4.2% and +2.2% in the prior four quarters. Interestingly, as recently as March, the same forecasters expected 1.5% growth in Q1, which proved to be overly bearish compared to actual +3.1%.



Expected slower economic growth has been confirmed by recent data. Like the U.S. Fed, other central bankers (Europe, China, greater Asia and Australia) are executing monetary policy that points to low interest rates for longer, which is generally bullish for stocks, serving to substantially offset continuing trade friction, moderation in China and Eurozone stagnation. GPM continues to believe that reasonable trade deals and competition policies that ultimately open markets and protect U.S. companies should reinforce consumer and business confidence globally and encourage companies to invest for long-term growth. Equity markets strength reflects expectations that trade issues will be resolved positively.

**GPM has been investing for clients since 1993.** We manage money and advise on critical financial planning and investing decisions. We listen and learn. Our advice is holistic and tailored to you and your peace of mind. We treat you, your family and other advisors with respect. We are easy to work with, accessible and responsive. Our investment strategies are centered around two core competencies - researching high quality companies and actively managing portfolios built with the individual stocks of those companies to deliver growth and income for our clients. Our investment process is disciplined and fundamentally based with a healthy respect for risk. GPM is employee owned and team members invest in our model securities alongside our clients.

## Markets Summary

Reference Index Fund	Income Yield %	% Below 1 yr High	Performance for the Period				Average Annual Performance			
			Quarter	YTD -19	2018	2017	3 Yrs	5 Yrs	10 Yrs	15 Yrs
Short-Term Treasury Bond	2.5	0.1	1.5	2.6	1.4	0.4	1.2	1.2	1.3	2.3
Intermediate-Term Treasury Bond	2.5	0.1	2.9	5.2	1.0	1.6	1.2	2.4	3.2	4.1
Intermediate-Term Investment Grade Bond	3.3	-	3.5	7.7	(0.5)	4.3	3.1	3.7	5.8	5.2
High-Yield Bond	5.7	0.2	3.2	11.0	(2.9)	7.1	7.1	4.8	8.4	6.6
S&P 500 Stock ETF (SPY)	1.9	1.1	4.2	18.3	(4.6)	21.7	14.0	10.6	14.6	8.6
Small-Cap Stock	1.4	5.4	3.3	19.5	(9.4)	16.1	13.6	7.7	14.6	9.3
Total International Stock	2.8	4.9	3.3	13.2	(14.4)	27.4	10.0	2.3	6.5	5.6

Except for SPY, data is for Vanguard funds and returns include reinvested income. Income/dividend yield shown is SEC format.

<u>Stock Portfolio Insight</u>	<u>Separately Managed Accounts in Brief</u>
<p><b><u>Sector Allocation Breakdown</u></b></p> <ul style="list-style-type: none"> <li>Technology: 32.7%</li> <li>Industrials: 31.0%</li> <li>Healthcare: 14.5%</li> <li>Financial Services: 9.6%</li> <li>Consumer Defensive: 6.5%</li> <li><u>Consumer Cyclical: 5.7%</u></li> <li>100%</li> </ul> <p><b><u># of Cos. that Raised Dividend</u></b></p> <ul style="list-style-type: none"> <li>Second Quarter: 7</li> <li>Year-to-date 2019: 13</li> </ul> <p><b><u>Portfolio Company Averages</u></b></p> <ul style="list-style-type: none"> <li>Dividend yield: 1.62%</li> <li>Market Cap: \$180 bil</li> <li>ROE past 12 mos: 26.1%</li> <li>ROE past 5 years: 22.3%</li> <li>P/E 5-year average: 20.7X</li> <li>P/E trailing 12 months: 20.8X</li> <li>P/E forward 12 months est: 18.9X</li> </ul> <p>Above data is approximate @ quarter-end.</p>	<p>Our long-term growth accounts are normally invested 100% in stocks. <u>Balanced accounts</u> take a more conservative approach and hold stocks and bonds. Growth and balanced accounts normally hold the same stocks.</p> <p><b><u>GPM stock portfolios continued to perform well in Q2 and YTD.</u></b></p> <p>Our strategy is to be fully invested nearly all of the time. We focus on U.S. based industry leaders that compete and win around the world - companies with track records of delivering rewarding long-term growth in sales, earnings, cash flow, dividends, and ultimately stock prices. We now hold 29 stocks with an average dividend yield of 1.6%. Three GPM stocks pay no dividend. So far this year, 13 of our companies raised their cash dividend by 5% to 26%.</p> <p>During the quarter, we sold out of two stocks - a real estate company at a small net loss over a sixteen month holding period and a tool company at a decent gain over the two and a half years held. We added two new stocks - a large U.S. defense and aerospace company and one of the world's leading manufacturers of residential and commercial water heaters and boilers. As usual, we selectively increased the size of multiple core positions across accounts. New money deposited by clients was deployed opportunistically.</p> <p><b><u>Balanced accounts also continued to perform very well.</u></b></p> <p>Results were paced by broad stock gains and all bond components contributed positively, led by corporate and high-yield bonds. We believe the Fed is on hold until economic data substantially reaccelerates.</p>

As always, thank you for allowing GPM to serve as your investment manager and advisor. Do not hesitate to contact us to discuss your portfolio and other financial planning matters.

Sincerely, the GPM Team

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