Investment Insights

Does History Repeat?

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The Model Wealth Program
Principle-Based Investing

"Principal-based investing means we focus on investment principals that have stood the test of time rather than basing our decisions on short-term market predictions. Our goal is to identify a small number of experienced managers who offer the potential to outperform their peers over a long period of time. Our approach is to combine a well-defined quantitative and qualitative due diligence process with proprietary construction tools to build, manage and monitor our client's portfolios."

The Model Wealth Program is a managed fee-based investment program, available through Cornerstone Wealth Management, LLC. The MWP investment team has developed sophisticated long-term strategies in an effort to manage and control risk, to help investors pursue their financial goals. For more information about the program, contact your Cornerstone Wealth Management representative.

Outlook

- U.S. economy: The economy should continue to grow at a solid pace in 2019. The U.S. economy is expected to grow 2.7 percent in 2019 after 2.9 percent in 2018. The odds of a recession remain low.[1]
- U.S. stocks: The consensus estimates corporate earnings growth of 11 percent in 2019.[2] Further expansion in valuation (price/earnings ratios) is unlikely. Stock returns will likely be driven by earnings growth.
- U.S. bonds: Headwinds include an economy nearing full-employment and the expectation of modestly higher inflation. Monetary policy normalization is underway, but the Fed will continue to move rates very slowly.
- International stocks: Brexit negotiations, trade disputes and the strong dollar may limit performance over the near-term. However, attractive valuations make international stocks compelling for patient investors.

Does History Repeat?

I was recently asked a very thought-provoking question in a meeting with advisors. The question went something like this: "You've shown a lot of historical examples, but how confident are you that the future will look like the past?"

The question made me think of this memo, which was sent from Lin Wells to Donald Rumsfeld back in April 2001. Wells served under both Clinton and George W. Bush.

Thoughts for the 2001 Quadrennial Defense Review

- If you had been a security policy-maker in the world's greatest power in 1900, you would have been a Brit, looking warily at your age-old enemy, France.
- By 1910, you would be allied with France and your enemy would be Germany.
- By 1920, World War I would have been fought and won, and you'd be engaged in a naval arms race with your erstwhile allies, the U.S. and Japan.
- By 1930, naval arms limitation treaties were in effect, the Great Depression was underway, and the defense planning standard said "no war for ten years."
- Nine years later World War II had begun.
- By 1950, Britain no longer was the world's greatest power, the Atomic Age had dawned, and a "police action" was underway in Korea.
- Ten years later the political focus was on the "missile gap", the strategic paradigm was shifting from massive retaliation to flexible response, and few people had heard of Vietnam.
- By 1970, the peak of our involvement in Vietnam had come and gone, we were beginning détente with the Soviets, and we were anointing the Shah as our protégé in the Gulf region.
- By 1980, the Soviets were in Afghanistan, Iran was in the throes of revolution, there was talk of our "hollow forces" and a "window of vulnerability", and the U.S. was the greatest creditor nation the world had ever seen.
- By 1990, the Soviet Union was within a year of dissolution, American forces in the Desert were on the verge of showing they were anything but hollow, the U.S. had become the greatest debtor nation the world had ever known, and almost no one had heard of the Internet.
- Ten years later, Warsaw was the capital of a NATO nation, asymmetric threats transcended geography, and the parallel revolutions of information, biotechnology, robotics, nanotechnology, and the high density energy sources foreshadowed changes almost beyond forecasting.

All of which is to say that I'm not sure what 2010 will look like, but I'm sure that it will be very little like we expect, so we should plan accordingly.

– Lin Wells

Certified as Unclassified
January 9, 2009
1AW EO 12959, as amended
Chief, RDD, ESD, WHS

The Wells memo was intended to point out the fallacy of trying to predict the future and to emphasize the importance of planning for unexpected scenarios. To paraphrase: If you can't predict, you must prepare.

It is inevitable that, from time-to-time, markets will experience setbacks. That is the very nature of markets. We cannot predict when these setbacks will occur. However, we can prepare for these setbacks with the goal of minimizing their impact on the long-term value of the portfolios we manage. We believe the five steps to prepare for difficult markets are:

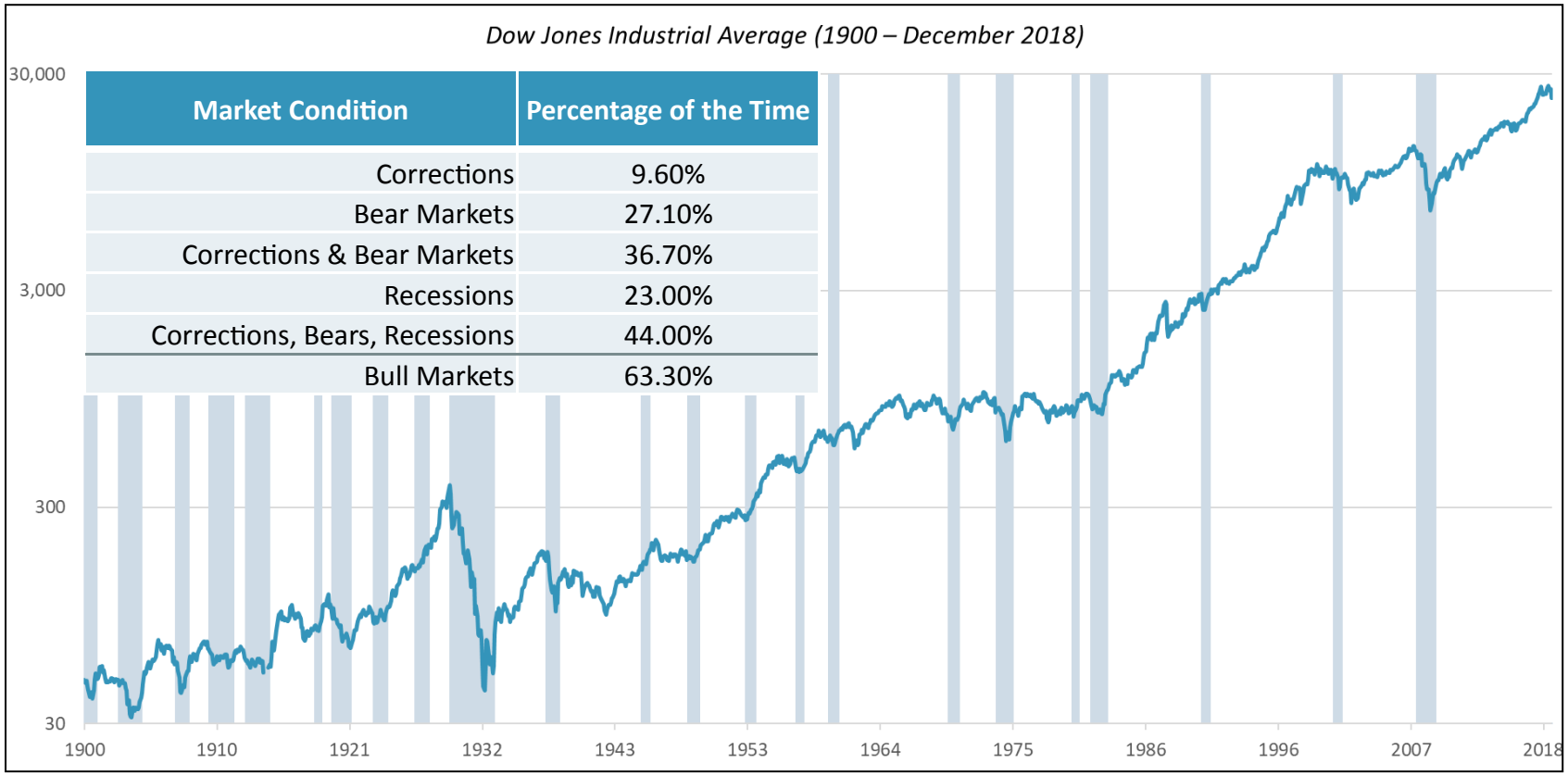
- Maintaining a proper asset allocation – one that clients can stick with in good times and bad.
- Maintaining a long-term perspective – understanding that corrections are a normal part of the investing process and not a reason to sell good investments.
- Diversification – portfolios should be broadly diversified by security, asset class and manager.
- Quality – make sure the investments in your portfolio won't lay an egg if the economy runs into trouble.
- Professional management – portfolios should be professionally-managed, monitored and rebalanced.

None of these steps will help investors avoid short-term declines in the value of their investments. However, if implemented consistently, it is our hope that these steps will dampen the impact of stock market declines, and help investors participate in the recoveries that typically follow.

(1) Source: Philadelphia Federal Reserve Survey of Professional Forecasters, November 18, 2018
(2) Source: Standard & Poor's, January , 2019

We continue to believe a long-term perspective is necessary for investors who have long-term goals, like saving for retirement. The chart below helps illustrate that point.

Over the past 118 years, the market has been in a correction, a bear market, or a recession on 44 percent of the days, or nearly half the time. In our view, market declines are a normal part of the investment process and not a reason to sell good investments.



Market Condition	Percentage of the Time
Corrections	9.60%
Bear Markets	27.10%
Corrections & Bear Markets	36.70%
Recessions	23.00%
Corrections, Bears, Recessions	44.00%
Bull Markets	63.30%

Correction: 10% decline, Bear Market, 20% decline using Dow Jones Industrial Average. Recessions are as defined by the National Bureau of Economic Research. Sources: Dow Jones & Co., NBER. *Past performance may not be an indication of future results.*

The Model Wealth Program: The Value Focused Portfolio

Our Value Focused portfolios are focused on managers who seek stocks they believe the market has undervalued. Value stocks are stocks that are often temporarily out-of-favor due to a negative corporate developments such as an earnings disappointment or difficult business conditions. Value managers buy these stocks with the hope that a business recovery will lead to higher-than-average returns. These portfolios are properly diversified among managers in the three major asset classes: U.S. equity, international equity, and fixed income. Within the Model Wealth Program, we re-balance the portfolios we manage when market conditions push the portfolio out-of-balance in an effort to maintain a steady level of risk consistent with your long-term goals and objectives.

We offer five different choices for investors with varying risk tolerance and need for current income: Aggressive Growth, Growth, Growth & Income, Income with Moderate Growth, and Income with Capital Preservation. We believe a professionally-managed advisory account can help take the emotions out of the investment decision-making process, and offers an attractive solution for investors with long-term goals, like saving for, or investing in, retirement.

Investments and strategies mentioned may not be suitable for all investors. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. Asset allocation does not ensure a profit or protect against a loss. Tactical allocation may involve more frequent buying and selling of assets and will tend to generate higher transaction cost. Investors should consider the tax consequences of moving positions more frequently. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

Important Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
Stock investing involves risk including loss of principal.
Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.
International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.
There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Past performance is no guarantee of future results. All indices are unmanaged and may not be invested in directly.

Our Future is Bright

America faces many challenges, but the formula of freedom, respect for basic human rights, democracy and capitalism has been a powerful elixir that has generated enormous success for our country and our economy for more than 200 years.

To sum up, I feel quite confident that much of our future *won't* look anything like the past, but I do believe following sound investment principles is the most sensible approach to managing money.

We believe the Model Wealth Program is well-positioned to take advantage of the opportunities in the market. For investors with long-term goals, like saving for retirement, our suggestion continues to be: stay the course.

Cornerstone
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