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QUARTERLY MARKETREVIEW

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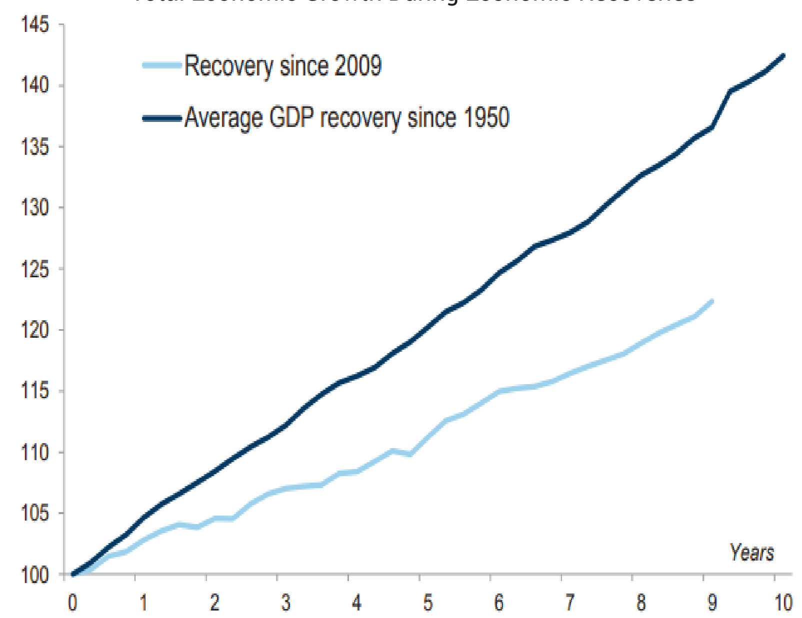
In ancient times, when map makers got to the edge of the known world they would write "Beyond this place there be Dragons." We are amongst these unknown dragons now. Never before has a bull-market lasted as long as this current iteration. Never. Not during the glittering champagne fueled prohibition prosperity of the roaring 1920's as chronicled by F. Scott Fitzgerald. Or the internet introducing 1990's that ushered in our phones, replacing our friends. Nope. Never. This is it. As good as it's ever been. The stock market has now officially never gone this long without seeing a 20% or larger decline in overall prices. A continual, although at times challenging, march higher from the deepest darkest moment of the global financial crisis of 2008 when stocks officially bottomed out on March 7th, 2009 (after dropping 60% since late 2007). The scariest of times followed immediately by the best of times. What a ride.

The Current Bull Market: Very Slow And Very Steady
Total Economic Growth During Economic Recoveries

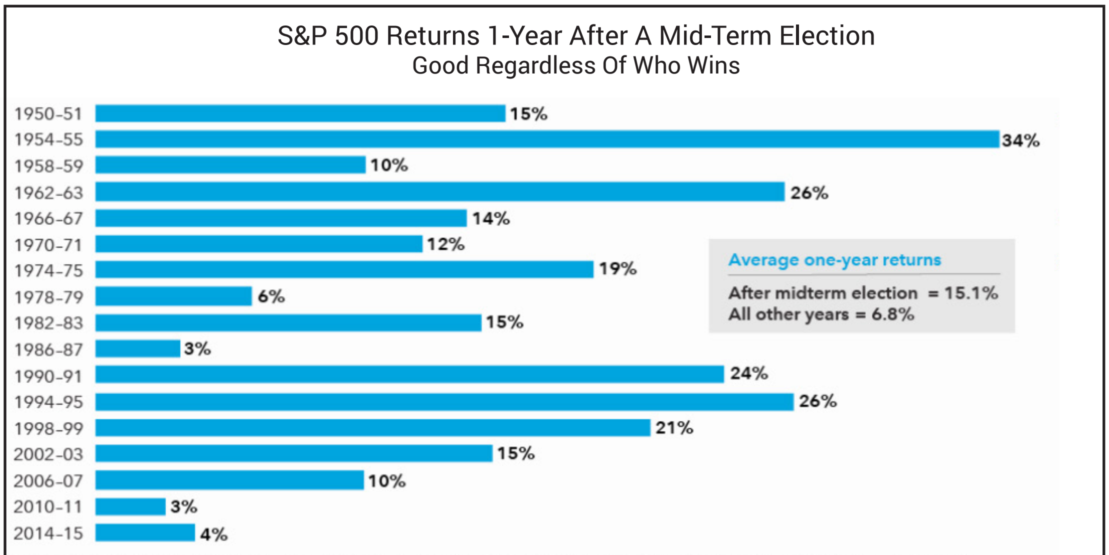


Soure: Haver Analytics, Goldman Sachs Global Research

With all this record setting, it has to go down next right? The Laws of Physics say so, don't they?. What goes up must come down. In reality, this historically long period of growth has been surprisingly weak. Market returns during this bull market have averaged a full 2.5% less in annualized returns compared to the average that occurred during all other periods of expansion. As graphed, total growth of the economy has lagged dramatically behind previous periods of expansion. The severity of the downturn we experienced in 2008 – the worst since the Great Depression of 1929 - left an indelible mark on our collective psyche. Consumers started paying down their debt instead of amassing more. Businesses did the same as corporate cash reserves reached all-time highs. This new found prudence has lowered the overall trajectory of economic growth but has at the same time placed it on more sustainable footing. The true culprit of all economic calamities - irrational enthusiasm and excess – stays at bay.

The economic tarot cards are telling us it would be historically unprecedented for markets to collapse with the data still trending as is. This doesn't guarantee strong returns. This doesn't even guarantee positive returns. It does say, however, that the massive bear market we've avoided for a record-setting length – denoted specifically as a -20% or greater loss for the stock market – does not appear to be lurking with those dragons on the edge of the map. Corporate profitability is expanding by approximately 20% on the heels of the strengthening economy and tax-reforms. The jobs market is so strong that there are now more job vacancies then unemployed workers. This can create problems within itself as a record high 36% of small businesses have job openings they cannot fill, but this is not the kind of problem that leads to a collapse.

The above economic and corporate fundamentals are the data points that drive market performance over the long-term. Unfortunately, these are the boring things that people don't like to talk about. People like fire breathing dragons. Let's now flip the script and talk about factors that have no sustainable bearing on markets that everyone wants to talk about incessantly: elections and geo-political politics.



Sources: Capital Group, RIMES, Standard & Poor's. Calculations use Election Day as the starting date in all election years, and November 5th as a proxy for the starting date in other years. Only midterm election years are shown in the chart.

Didn't we just finish an election? Our Founding Fathers probably would have reconsidered things if 24-hour news networks existed in 1776. The great thing we have to proclaim and the only guarantee we are willing to make in this letter is providing a big political pat on the back to you. Congratulations. Your particular political party winning the mid-term elections has historically been great for markets. Actually, if you are a card-carrying member of the United States Pirate Party, we have no statistical data to analyze your policy effect on markets. This is not part of that fake news we've been hearing so much about. The USPP is one of the surprisingly few recognized political parties in the US. Fringe parties aside, as graphed, the markets have given bi-partisan support for mid-term election results. The 1-year return following mid-term elections is dramatically higher at 15.1% compared to non-mid-term years at 6.8%. This outperformance has occurred during both Republican and Democratic triumphs. So, what does this actually mean? It means that markets just flat-out like an election to be over and done with, regardless of who triumphs. Now let's carry on to the other noise-making headline out there: the trade conflict with China. Our job as prudent managers of money is to always look at scenarios from a worst-case standpoint. What if that dragon really appears? Currently, the earnings of the 500 largest US companies derive less than 2% of their total revenue from China. If a full-blown global trade war ensues, the potential risk to markets is much higher. But we still attach an extremely low probability to this political fire burning out of control.

Our thoughts on the next market move are about as useful as those dragons denoted at the edges of ancient maps. We just don't know what's out there. The future, as always, remains unwritten. It's how we respond to conditions as they present themselves that separates success from failure. It always has been and always will be as simple as that. Your portfolio needs to be built in an all-weather manner based upon your particular needs, circumstances, and risk profile. Dragons come in all shapes and sizes. From Disney's lovable Pete the Dragon to the most menacing of medieval beast; be prepared to confront them all.

As always, thank you for your continued trust, confidence, and support in our investment process, long-term strategy and constant vigilance.