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In sharp contrast to Q4 2018, all our five key asset classes enjoyed positive returns in Q1 2019. REITS performed the best followed by Commodities; Cash and Bonds were the lower performers. That is one Tale.

This is one of the longest Bull markets in US financial history and if history is to be believed, a correction should occur. We just don't know when. We are increasingly of the opinion that a large upside in US equities is less likely than a correction is. That is the second Tale.

To be clear: this in no way diminishes our view that Equities are excellent investments. Rather, we have researched and implemented some new portfolio risk management tools over the past year and have identified Equity products that offer less volatility than broad market ETFs. By using them we may better protect against declines in Equity markets. Of course, we give up some upside potential, but given our view that considerable upside is currently limited, we think this may be viable.

Our investment approach is to accept uncertainty and focus on structuring sensible and prudent portfolios. We think some of these low volatility products will help us do that. We still plan to keep portfolios diversified across the 5 main asset classes and to rely on fundamentals and evidence-based investment strategies, and remain cost-conscious. We think this is a sound investment approach.



A CITY OF TWO TALES - Q1 2019 MARKET REVIEW

The Markets (first quarter through March 29, 2019)

Following a tumultuous close to 2018, stocks enjoyed a robust January. Positive feedback from ongoing negotiations between the United States and China, coupled with strong job growth, low inflation, and stable interest rates, helped fuel investor confidence that pushed the major benchmark indexes to levels not seen in 30 years — despite a partial government work stoppage. Each of the indexes listed here posted notable gains, led by the small-cap Russell 2000, followed by the Nasdaq, S&P 500, Global Dow, and the Dow.

Stocks continued to climb in February, albeit not at the breakneck pace of the previous month. Corporate earnings reports were generally positive, and trade talks between the United States and China continued with no deal being reached, but signs of a favorable resolution in sight. The partial government shutdown ended at the end of January. The Federal Open Market Committee indicated that it was inclined to refrain from increasing the federal funds target interest rate range for the foreseeable future. Investors continued to push stocks higher. The Russell 2000 again led the way for February, increasing its value by over 16% over the first two months of 2019. Of the indexes listed here, only the Global Dow failed to gain at least 3.0% (or very close to it) by the end of February.

March saw stock values fluctuate on a fairly regular basis throughout the month. The large caps of the Dow posted minimal end-of-month gains, while the Russell 2000, which had been riding a solid wave of gains during the first two months of the year, took a bit of a dive in March, falling over 2.20% from its February closing value. The Global Dow moved ever so slightly down by the end of March. Only the Nasdaq and S&P 500 posted notable gains for the month.

Nevertheless, the first quarter of 2019 proved to be a positive one for stocks. Each of the benchmark indexes listed here closed the quarter with gains of more than 10% (except for the Global Dow), kicking the year off on very solid footing. Despite signs of a weakening global economy and low inflation, news that the Fed is backing off its plan to increase interest rates helped quell investors' concerns. Both the technology and energy sectors enjoyed a strong first quarter. By the close of trading on February 28, the price of crude oil (WTI) was \$57.26 per barrel, up from the January 31 price of \$53.95 per barrel. The national average retail regular gasoline price was \$2.623 per gallon on March 25, up from the February 25 selling price of \$2.390 but \$0.025 lower than a year ago. The price of gold dipped by the end of February, falling to \$1,314.40 by close of business on the 28th, down from \$1,325.70 at the end of January.

Key Dates/Data Releases

4/1: Retail sales, PMI Manufacturing Index, ISM Manufacturing Index

4/2: Durable goods orders

4/3: ISM Non-Manufacturing Index

4/5: Employment situation

4/9: JOLTS

4/10: Consumer Price Index, Treasury budget

4/11: Producer Price Index

4/12: Import and export prices

4/16: Industrial production

4/17: International trade

4/18: Retail sales**4/19: Housing starts****4/22: Existing home sales****4/23: New home sales****4/25: Durable goods orders****4/26: GDP****4/29: Personal income and outlays**

Market/Index	2018 Close	As of March 29	Monthly Change	Quarterly Change	YTD Change
DJIA	23327.46	25928.68	0.05%	11.15%	11.15%
NASDAQ	6635.28	7729.32	2.61%	16.49%	16.49%
S&P 500	2506.85	2834.40	1.79%	13.07%	13.07%
Russell 2000	1348.56	1539.74	-2.27%	14.18%	14.18%
Global Dow	2736.74	3000.81	-0.01%	9.65%	9.65%
Fed. Funds	2.25%-2.50%	2.25%-2.50%	0 bps	0 bps	0 bps
10-year Treasuries	2.68%	2.40%	-31 bps	-28 bps	-28 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

- Employment:** Total employment rose by only 20,000 in February after adding 311,000 new jobs (revised) in January. The average monthly job gain in 2018 was 223,000. Notable employment increases for February occurred in professional and business services (42,000) and health care (21,000). Employment in construction declined by 31,000 in February, partially offsetting an increase of 53,000 in January. The unemployment rate declined by 0.2 percentage point to 3.8% in February, and the number of unemployed persons decreased 300,000 to 6.2 million. Among the unemployed, the number of job losers and persons who completed temporary jobs (including people on temporary layoff) declined by 225,000. This decline reflects, in part, the return of federal workers who were furloughed in January due to the partial government shutdown. The labor participation rate was unchanged at 63.2% in February, as was the employment-population ratio (60.7%). The average workweek fell by 0.1 hour to 34.4 hours for February. Average hourly earnings increased by \$0.11 to \$27.66. Over the last 12 months ended in February, average hourly earnings have risen 3.4%.
- FOMC/interest rates:** Following its last meeting in March, the Federal Open Market Committee did not increase the federal funds target rate. The Committee's report was dovish, noting that economic growth appeared to be slowing, as were business and consumer spending. No rate increases are projected for the year, although that could change. The FOMC does not meet again until the end of April, with its report issued on May 1.
- GDP/budget:** The third and final estimate of the fourth-quarter gross domestic product showed the economy grew at an annualized rate of 2.2%. The GDP expanded at a rate of 3.4% in the third quarter. For 2018, the GDP advanced at a rate of 2.9%. Of note, consumer spending (personal consumption expenditures) rose by 2.5% in the fourth quarter, and 2.6% for the year. Also of note, business investment rose 5.4% for nonresidential fixed investment. On the other hand, residential investment was weak, falling by 4.7%. The federal budget deficit was \$234 billion in February after enjoying an \$8.7 billion surplus in January. Through the first four months of fiscal year 2019, the government deficit is \$544.2 billion. Over the same period for fiscal year 2018, the deficit was \$391.0 billion.
- Inflation/consumer spending:** The report on consumer income and spending, one that is favored by the Federal Reserve as an inflation indicator, showed personal income decreased 0.1% in January but increased 0.2% in February, while it decreased 0.1% in January (the latest report has income and expenditures for January and only income for February). Disposable (after-tax) income fell 0.2% in January, but increased 0.2% in February. Consumer spending (personal consumption expenditures) decreased 0.1% in January, after plummeting 0.5% the previous month.
- The Consumer Price Index increased 0.2% in February after being unchanged in January. Over the previous 12 months, the CPI rose 1.5%. Core prices, which exclude food and energy, climbed 0.1% for the month after advancing 0.2% in January. Core prices were up 2.1% over the previous 12 months.
- According to the Producer Price Index, the prices companies received for goods and services inched up 0.1% in February after falling 0.1% in January. A 1.8% increase in energy prices pushed goods prices 0.4% higher in February. Producer prices increased 1.9% over the 12 months ended in February.
- Housing:** Following a mundane 2018, it's taken the housing sector some time to pick up steam in 2019. Fortunately, February may be the month where sales pick up the pace. Sales of existing homes vaulted 11.8% in February after plunging 1.2% in January. Year-over-year, existing home sales remain down 1.8%. The February median price for existing homes was \$249,500, up from \$247,500 in January. Existing home prices were up 3.6% from February 2018. Total housing inventory for existing homes for sale in February increased to 1.63 million, up from 1.59 million existing homes available for sale the prior month. Sales of new homes also improved in February. Sales of new single-family houses in February were 4.9% higher than January's rate, and 0.6% above the February 2018 estimate. The median sales price of new houses sold in February was \$315,300 (\$303,900 in January). The average sales price was \$379,600 (\$358,000 in January). Inventory was at a supply of 6.1 months (6.5 months in January).
- Manufacturing:** The manufacturing sector remained somewhat stagnant in February, as industrial production edged up 0.1% after falling 0.4% in January. In

February, manufacturing production dropped 0.4% for its second monthly decline, although manufacturing output is 1.0% above its year-earlier level. Orders for durable goods increased 0.4% in January — the latest figures from the Census Bureau (again, due to the government shutdown). Transportation led much of the increase, as new orders excluding transportation fell 0.1% in January. Shipments of manufactured durable goods decreased for the third consecutive month in January, falling 0.5% from the prior month.

- **Imports and exports:** The latest information on international trade in goods and services, out March 27, is for January. For that month, the goods and services deficit was \$51.1 billion, down \$8.8 billion from December's figures. January's exports were \$1.9 billion more than December exports. Imports were \$6.8 billion less than December imports. Compared to January 2018, the goods and services deficit decreased \$1.9 billion, or 3.7%.
- **International markets:** In Great Britain, Prime Minister Theresa May was unable to gain parliamentary approval of the exit deal she negotiated with the European Union. Parliament could do no better as it failed to find consensus on any kind of Brexit plan. The European Union agreed to extend the deadline for a deal to April 12, with the proviso that a further extension would be possible only if the United Kingdom agreed to hold European election on May 23, which Prime Minister May does not wish to do. The eurozone's fourth-quarter GDP advanced at an annual rate of 0.2%, dragged down by sluggish consumer spending. The negotiations between the United States and China continue to drag on. Apparently, the two sides are trying to come up with a plan that provides increased U.S. exports to China, greater access to American companies, and added protection of intellectual property.
- **Consumer confidence:** The Conference Board Consumer Confidence Index® dropped from 131.4 in February to 124.1 in March. Consumers expressed growing doubt over the labor market following the latest jobs report (see above). The Present Situation Index, which gauges how consumers feel about current business and labor market conditions, declined in March from 172.8 to 160.6. Consumers' outlook for income, business, and labor market conditions over the short term also fell.

Eye on the Month Ahead

At the close of February, there was guarded optimism that a trade accord between the United States and China would come to fruition. As we leave March, negotiations are still ongoing with no real signs of progress being made. In any case, April may bring with it a heartier employment report while there's hope that the residential sector will continue to advance. A big unknown heading into April is the aftermath of the Brexit saga and its impact on the global economy.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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