2nd QUARTER 2019

Investments in securities do not offer a fix rate of return. Principal yield and/or share price will fluctuate with changes in market conditions and, when sold or rendered, you may receive more or less than originally invested. No system of financial planning strategy can guarantee future results. Investors cannot directly invest in indices. Past performance does not guarantee future results.

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As of the end of the second quarter all model portfolios are running at the same reduced risk levels we established at the end of January. The S & P 500 ended the quarter up 18.5% year to date. This has been the best first half of the year in terms of investment returns in over 20 years. How can this be? We all see the seemingly daily headlines about the trade war with China and the slowing down of Economic Data and the risk of recession not only in the U.S. but globally.

Things are seemingly boiling down to a couple of themes one of which has become more dominant. First there is optimism that the China trade war will in fact be solved at some point in time. In our estimation the final resolution is still a ways out but as long as there is hope of a favorable outcome the market will likely continue to react positively. The second theme that really kicked in the second quarter and has become the dominant theme at the moment was optimism that turned to the likelihood of the Federal Reserve cutting interest rates. As of June 21st, the futures markets were anticipating a 100% chance of an interest rate cut in July with a 78% chance of .25% cut and a 22% chance of a .50% cut. Clearly the stock market is anticipating this event and historically the market reacts well in times of declining interest rates (at least initially.)

It is important to keep in mind that the Federal Reserve does not cut interest rates when things are good, and the economy is firing on all cylinders. We are at a very late stage in this economic cycle and the ability to avoid a recession at this stage should the data weaken further would be difficult to say the least. The Federal Reserve's Yield Spread Model which we follow currently estimates a 34% chance of a recession in the next 12 months. Only once has this model hit 34% chance without a recession hitting in the following 12 months, so this certainly bears watching. However, at the present time, the economic data is still very mixed which makes recession a tough call. (Recessions are extraordinarily difficult to call anyway.)

Don't check your account balances daily and your blood pressure once per year! Constant updates make investing more emotional than it needs to be.

Manufacturing has slowed tremendously but employment is still very robust. The Leading Economic Index which typically declines 6 months or so before a recession starts has not shown significant signs of weakness as of yet. It's a some good news, some bad news scenario.

Given the risks that are present we are comfortable with the reduced risk positioning we are currently carrying. We believe risks are much higher than the market is pricing in and the media is talking about and are prepared to react accordingly, should conditions warrant further changes.

While we had no changes to the model portfolios in the quarter, we do have several funds we are reviewing closely. A couple of fund changes are certainly possible in the next 6 months. We will keep you informed of any changes should they occur. If you have any questions or comments or are just feeling a little unsettled, please feel free to contact us.

**The Dow Jones Industrial Average is a price weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJI*A was invented by Charles Dow back in 1896.*

**The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.*

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