4TH QUARTER END 2019

FINANCIAL & ECONOMIC REVIEW

Markets ended the fourth quarter and 2019 on a positive note, as the Federal Reserve again stepped in and lowered the benchmark rate driving investors to equities and increasing valuations. This decrease leaves the Fed Funds rate 75 basis points lower than year-end 2019 and in line with the dovish stance from other central banks around the world. The "lower for longer" approach to interest rates may support markets in the near term, but portends a weaker market environment for the next 3-7 years, as U.S. and global growth is slowing. Brexit drama and Hong Kong protesters dominated headlines throughout the year, even as a U.S./China trade deal took a positive initial step forward in Q4. We are in incredibly disruptive times both socially and economically, as we enter a politically charged year that is sure to bring uncertainty to already fully-to-overvalued markets. During this period of low interest rates and low inflation, we are focusing our research for client investments on established, dividend paying companies that have strong balance sheets, above average credit rating, strong free cash flows and good earnings growth. The best offense is often a good defense during uncertain times. With that in mind, we are cognizant of the fact that markets may remain irrational and overvalued for months or even years to come. To quote economist Paul Samuelson, "the stock market has predicted nine of the last five recessions."

The Healthcare, Technology and Financial sectors performed best in Q4, rising 18.6%, 11.9% and 8.1% for the quarter. While still positive in Q4, Real Estate and Utilities were the worst performers returning 0.6% and 0.9% respectively. The U.S. Aggregate Bond index rose a meager 0.2%, while the 10-year Treasury yield ended the quarter at 1.92%, down 28.6% from 2018 year-end. Crude oil ended the quarter at $61.06 per barrel, up 12.9% and up 34.5% for the year. The S&P 500, Dow Jones Industrial Average and NASDAQ Composite Indices rose an impressive 9.1%, 6.7% and 12.5% for the quarter respectively. Internationally, the EAFE rose 8.2% in Q4. The sectors trading at the largest discount to Morningstar's coverage universe were once again Energy and Consumer Cyclical, at approximately 90% and 97%, up from 80% and 93% three months ago[1]. Technology, Real Estate and Consumer Defensive were the most overvalued sectors, trading at 10%, 8% and 7% above fair value. The P/E ratio on the S&P500 rose to 23.78 at year-end compared to 15.78 historically, representing an over 50% premium for the index. We continue to feel that broader U.S. market valuations are stretched. We're continuing to remain patient as we look for individual stock positions for new client money until the broader market retraces or earnings catch up to current valuations.

Thank you for your trust in allowing us to manage your investment and retirement assets in 2019. We look forward to continually earning your respect and for blessing us with your continued referrals in the new year.

Jack A. Kennedy
Chief Investment Officer

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[1] Results referenced from Morningstar.com

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