Second Quarter 2019

Quarterly Letter to Clients

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As the country paused to celebrate its 243rd birthday, commemorating its Declaration of Independence from Great Britain, the focus turned briefly from the changes and challenges of a nation undergoing a significant transformation to fireworks, picnics, and parades. Yet, almost unnoticed during the 2nd Quarter of 2019, the economic expansion passed a milestone of its own, taking its place in the record books as the longest U.S. economic expansion recorded to date at 122 months. While the longevity of the expansion may continue to set further records, the rate of growth has also been remarkable for its lack of strength, growing at a slower rate than has been experienced in past growth phases of the business cycle. This soft growth pattern has occurred despite the repeated attempts of government policymakers to push economic activity higher through both fiscal and monetary stimulus.

Not making things any easier, the world has entered what may be an unprecedented period of accelerating change. It manifests itself in the outward appearances of social strife, political discord, and technological shifts that seem to hit us daily in an unending barrage of headline news, tweets, and other forms of electronic notification. We are being drawn into a world of artificial intelligence, autonomous cars, and the potential for robots and drones to impact the future economy in a way only imagined in Sci-fi shows of yesteryear. This tremendous change makes the long-term future seem bright, but also makes it ever more challenging to see how we can circumnavigate the many pitfalls and unintended consequences that will undoubtedly appear before us. To meet the challenge, we need to maintain a balanced perspective when considering both the long-term trends and those we are confronting in the current environment.

At the end of the 2nd quarter of 2019, the global expansion has shifted to a global slowdown, with the risks of global recession increasing. Many of the ongoing geopolitical risks will only be exacerbated by the tensions surrounding trade and tariff issues, both of which are symptoms of a world that is competing for dominance in the future course of technology. The institution of a new “Cold

War" with China rests mainly in the struggle of whether technology can be protected, shared or kept from being misappropriated -- to the advantage of one nation or another. While both countries claim national interests in defending their "tech territory", the rivalry has already begun a process of decoupling and re-shifting the supply chains of global businesses in a reaction to the tariff skirmishes.

Thus, the focus of the capital markets has been overwhelmingly directed towards Central Banks around the world, and whether the extraordinary monetary policies that began at the end of the Great Recession in 2008 will continue to have the wherewithal to forestall, or at the very least, dampen the impacts of declining growth rates. Here in the U.S., the Federal Reserve Chairman signaled a dramatic shift in policy expectations in the first weeks of 2019. In what was one of the more drastic reversals, the Fed moved from expecting another increase in the Fed Funds Rate in December 2018, to signaling that rate reductions were on the table. The bond and stock markets, welcomed those remarks, and rallied quickly in response during the first quarter of the year. The continued expectation of a more accommodative monetary policy has seemed to allay any concerns that market participants might have about the impacts of a slowing economy, as the bond market rally pushed yields down and the stock market continued to climb the proverbial wall of worry to reach new record highs.

Fixed Income

The bond market saw healthy gains during the past quarter. As the table below shows, longer maturity credits outperformed short-duration fixed income securities, while riskier corporate bonds outperformed the safer U.S. Government bonds. The 10-Year U.S. Treasury ended the quarter at a yield of 2.0%, declining 49 basis points from the 2.49% level seen at the end of the first quarter of the year. The yield curve shifted downward in roughly parallel fashion, with the short end of the curve off about 25 basis points and the longer portion declining between 40 and 55 basis points, depending on the maturity.

Morningstar Bond Indexes			*As of 6-30-2018*	
	Quarter	1-Year	3-Year	5-Year
US Inter Core Bd TR Bond	2.2	6.9	2.1	2.8
US Shrt Core Bd TR Bond	**1.7**	**4.9**	***1.7***	**1.7**
Corporate				
US Inter Corp Bd TR Bond	3.5	9.9	3.6	3.7
US Shrt Corp Bd TR Bond	**1.8**	**5.8**	**2.5**	**2.3**
Government				
US Gov Bd TR Bond	2.9	7.3	1.4	2.5
US Inter Gov Bd TR Bond	2.9	7.7	1.4	2.4
US Lng Gov Bd TR Bond	5.0	11.4	1.4	4.8
US Shrt Gov Bd TR Bond	**1.6**	**4.4**	**1.3**	**1.3**

With the downward shift, the bond market is pretty much incorporating the expectation of at least a 50-basis point reduction in rates on a go forward basis. This appears to be in concert with the widely anticipated expectation that the Fed will reduce rates sometime later this year.

Stocks

The stock market saw modest progress during the second quarter of the year. Despite all the consternation surrounding the trade impacts of potential tariff increases and signs of the U.S. Economy beginning to slow, stocks pushed upward with the Dow Jones Industrial Average (DJIA) and the S&P 500 Index both ending the quarter near record highs.

The Morningstar Performance table below displays the range of returns earned by mutual fund managers during both this past quarter and the 1-year, 3-year, and 5-year time periods. For the second quarter of 2019, the table shows that all major indices rebounded, with smaller capitalization stocks underperforming when compared to larger capitalization stocks.

Morningstar Stock Indexes			*As of 6-30-2018*	
Style	Quarter	1-Year	3-Year	5-Year
US Large Growth	5.1	11.4	19.4	13.9
US Large Val	3.1	10.0	10.7	8.1
US Mid Growth	7.1	15.6	17.9	11.6
US Mid Val	2.0	1.9	10.3	7.5
DJ Industrial Average TR	**3.2**	**12.2**	**16.8**	**12.3**
NASDAQ Composite PR	**3.6**	**6.6**	**18.2**	**12.7**
NYSE Composite PR	**2.8**	**4.4**	**7.6**	**3.5**
Russell 2000 TR	**2.1**	**(3.3)**	**12.3**	**7.1**
S&P 500 TR	**4.3**	**10.4**	**14.2**	**10.7**

On a total return basis for the quarter, the Dow Jones Industrial Average (DJIA) increased +3.2%, while the S&P 500 was up +4.3%, slightly outpacing the other major indices. The tech-heavy NASDAQ posted a gain of +3.8%. The average mutual fund saw an increase of +3.4% for the quarter, while international funds fared better, increasing +3.7% over the same time period.

Given the investment environment, our strategy for your account continues to focus on custom-tailoring your portfolio to meet the currently defined purpose of the capital invested. The fixed income portion of your account is structured to emphasize preservation of capital and steady cash generation from interest payments, while providing a potential source of funds for cash needs, or to reallocate to other asset classes if warranted. Likewise, the equity portion of your account is constructed to provide a combination of capital appreciation and dividend income to meet the long-term objective of the capital invested.   Our equity strategy remains consistent with our prior communications. We will continue to use our disciplined process of purchasing stocks that can be bought at prices that meet our investment standards, while still providing an acceptable margin-of-safety. For those stocks that exceed our estimate of fair value, we will trim or sell those positions, irrespective of the gyrations of the broad markets.