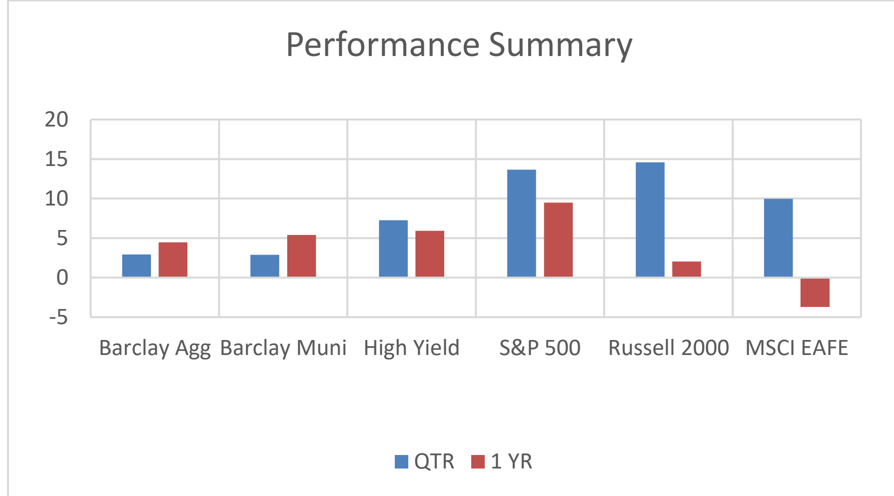
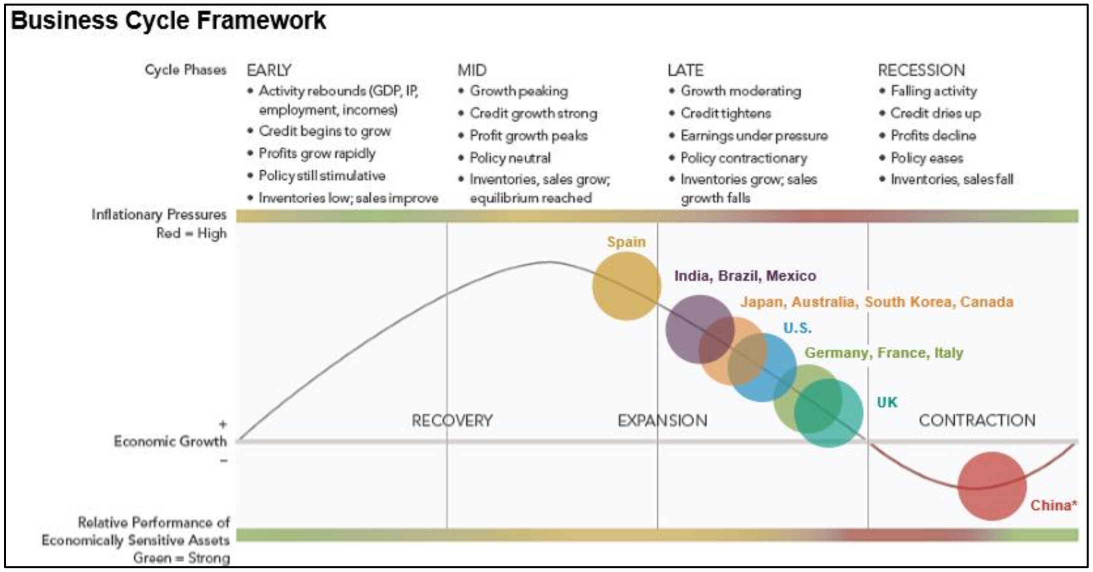


The New Year started off with a bang as the markets rebounded sharply in the first quarter. Economic data showed continued growth, albeit at a slower pace. Slower but positive growth and the Federal Reserve going on hold helped rev up investor risk appetites, pushing the current bull market into its 11th year. The major US equity indices all gained double digits as the S&P 500, Russell Midcap and Russell 2000 increased 13.6%, 16.5% and 14.5% respectively. Growth significantly outperformed value stocks (16.1% vs 11.9%), though both styles performed well during the quarter. International stocks rallied to start the year, but lagged their US counterparts. Both developed and emerging market stocks rose roughly 10% for the quarter.

The Federal Open Market Committee (FOMC) signaled a prolonged Fed pause, catching many by surprise. Most analysts had expected at least one more rate hike this year. Unemployment fell below 4% and is at the lowest levels since the 1970's. Tighter labor market continued to put mild upward pressure on wage growth. **Despite tighter labor conditions, the Fed noted that global risks continued to weigh on economic growth and inflation pressure remained muted.** As a result, the 10-year Treasury dropped to its lowest level in more than a year. Leading to a snap-back rally of 7.2% for high-yield bonds, which outpaced the broad bond market, muni bonds and global bonds which all increased about 2.9% for the quarter. The drop in the 10-year led to a flat yield curve, with the 10 year and 1 year Treasury ending the quarter at 2.41% and 2.40% respectively. Below we touch on the current economic cycle and the potential impact of an inverted yield curve.

Long Summers and Short Winters:

The business cycle in the U.S. has a history of long summers and short winters. According to JP Morgan the U.S. economy has experienced 616 months of expansion and only 93 months of recession since 1960. In fact, the current economic expansion is now in its 10th year and is the second longest since the start of the 20th century. In July it will become the longest! **While recession risk remains relatively low in the US, it's evident that late-cycle conditions have taken hold**. The late-cycle phases typically moves an economy past its peak rate of growth and tends to be more volatile than other phases. On average, late-cycle phases have ranged in length from less than a year to more than 2 years. Globally the economy remains soft and estimates for growth continue to be revised down. **The IMF recently cut its outlook for global growth to 3.3%, the lowest level since the financial crisis. That being said, there are some signs that global economies are moving past the bottom.** Tighter financial conditions have mostly retraced, the effects of the U.S. government shutdown are fading, and new expansionary policy in China and Europe may lead to better growth. However, global leading economic indicators have yet to turn up, until that happens it's too optimistic to predict that winter can be delayed for much longer. The chart on the next page provides a good summary of which phase of the business cycle most major economies are in, with a couple of exceptions most are in the late stage.



Source: Fidelity

Why the Yield Curve Matters:

The yield curve is simply a snapshot of yields for a series of bonds. A normal yield curve will slope upward from shorter maturities to longer ones. Which makes sense, since investors usually require extra return (interest) to hold their money for longer periods. Periodically the slope of the yield curve can change if the Federal Reserve raises short-term rates to curb inflation and slow economic growth, while long-term rates may fall if markets expect lower economic growth and inflation. Leading to an inverted yield curve where shorter rates are higher than longer rates.

Here's why an inverted yield curve may matter:

- It can make bank lending less profitable since banks tend to borrow at short-term rates and issue loans at longer-term rates. Less lending or tighter financial conditions can lead to slower economic growth as it becomes more difficult for consumers and businesses to borrow for growth.
- An inverted yield curve has a strong history of predicting bear markets and is a warning sign to stock investors. Although it doesn't mean a bear market is imminent as the lead time can vary significantly, sometimes as long as 20 months.
- **Every recession has had an inverted yield curve, but not every yield curve inversion has been associated with a recession (1966 and 1968).** With global economic growth slowing, investors are concerned that an inversion may be signaling an upcoming recession.

It's important to note that the yield curve is not a perfect indicator, and its predictive ability for the economy and stock market is often mixed. We'd also highlight that not all parts of the yield have inverted, the 10 yr. vs. 2 yr. remains positive by a small margin. In fact, according to Ned Davis Research, this portion of the yield remains in a sweet spot where the S&P 500 index has risen at a rate of 10.6% per year since 1976. **In summary, we think the messages from the yield curve should be heeded but it's not necessarily time for stock investors to panic. Here's what we recommend investors do:** use the strong first quarter rally as an opportunity to review your portfolio risk and goals; trim some of your big winners and re-balance your portfolio into better values; emphasis inflation resistant assets; favor large-cap stocks over small-cap; and emphasize dividend payers over non-payers.

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↓	YTD markets have regained most of their losses from the fourth quarter of 2018. Given that we are late in business cycle and valuations are rich we would be underweight US stocks. Within the category we would emphasize Quality-at a-Reasonable-Price (QARP) and dividend paying stocks over non-paying stocks.
U.S. Small/Mid Cap	↓	We remain underweight small/mid-cap stocks due to relatively high valuations and concerns about high debt levels. Small/Mid-caps tend to perform best early to mid in the business cycle, and we view the current cycle is in the later stages. With a flat to inverted yield curve we expect borrowing to be difficult for small firms, which may pressure growth and profits.
International Developed	↔	We are neutral on foreign stocks near-term. However, investors with a longer time horizon should be overweight based on reasonable valuations, a potential upswing in corporate earnings and looser monetary policy. On a five year time horizon we expect foreign developed markets to outperform US markets.
Emerging Markets	↔	Our opinion on emerging markets is similar to foreign developed, longer-term we are looking for buying opportunities to increase our exposure, and expect EM to outperform both US and foreign developed markets.

Fixed Income		
Investment Grade	↓	With the 10- year treasury yield near 2.5% we are maintaining our under-weight rating, and would keep some bond exposure in cash reserves which offer competitive yields and good liquidity. We recommend keeping exposure for disciplined risk management and diversification purposes.
High-Yield Bonds	↓	We are underweight high-yield and believe valuations are too high given the current late stage of the business cycle. We like to own early in the business cycle when spreads are wide and valuations are cheap.
Municipal Bonds	↔	We are neutral on municipal bonds, however they remain attractive for high tax-bracket investors and we would overweight them in taxable portfolios.
TIPS	↑	Given the low level of unemployment and interest rates available on core bonds we are favorable on TIPs as a hedge against higher inflation. Especially in tax-deferred accounts.
Floating-Rate Loans	↓	We are underweight and remain concerned about the amount and quality of loans being issued, and don’t believe they warrant the additional risk.
Emerging Markets	↔	We believe investors with a higher risk tolerance should consider adding some exposure to this asset class.

Alternatives		
Absolute-Return/Alternatives	↑	We like this asset class and believe it can improve the risk/reward profile of portfolios that hold traditional asset classes. Most of the funds we utilize significantly outperformed stocks during the fourth quarter sell-off.
REITs	↔	The strong rally in REITs in the first quarter has reduced our outlook for future performance. If the strong performance continues we are likely to switch our rating to underweight and look for opportunities to reduce exposure.
Commodities/Gold	↔	We view commodities as an effective way for long-term investors to diversify their portfolios and hedge against higher inflation. We expect the performance of commodities to improve and believe small positions in gold are suitable as a hedge against geopolitical and monetary policy risk.

U.S. Stocks

Market Performance, First Quarter 2019

Index	Q1 2019	1 YR
S&P 500	13.65%	9.50%
Russell 1000	14.00%	9.30%
Russell 1000 Value	11.93%	5.67%
Russell 1000 Growth	16.10%	12.75%
Russell Midcap	16.54%	6.47%
Russell 2000	14.58%	2.05%

Source: Morningstar

- US stocks regained much of their fourth quarter losses as risk appetites increased.
- Growth stocks regained their edge over value as interest rates fell and economic growth slowed. As the next cycle emerges we believe value has the potential to outperform growth by a wide margin.
- Our preference is to tilt portfolios towards quality-at a-reasonable-price (QARP) and dividend paying investment strategies.

International Stocks

Market Performance, First Quarter 2019

Index	Q1 2019	1 YR
MSCI EAFE	9.98%	(3.71%)
MCSI EME	9.97%	(7.06%)
MSCI BRIC	14.03%	(3.24%)

Source: Morningstar

- Foreign developed market stocks had a strong quarter but lagged the major U.S. indices. Slower economic growth and geopolitical concerns weighed on their relative performance.
- We continue to see signs the US Dollar will start to stabilize and may decline in 2019. Speculation among traders is aggressively predicting a higher US Dollar in 2019, this is usually a good contrary indicator. If the Dollar does sell-off we think it will be a catalyst for better foreign stock performance

Fixed Income

Market Performance, First Quarter 2019

Index	Q1 2019	1 YR
Vanguard Total Bond Index	2.92%	4.35%
Barclays Muni Bond	2.90%	5.38%
Barclays US Corp High-Yield	7.26%	5.93%
JPM GBI- EM Global Diversified	2.92%	(7.58%)
iShares TIPS Bond	3.16%	2.56%
BofA Merrill Lynch 3 month Treasury Note	0.61%	2.05%

Source: Morningstar

- Core and municipal bonds generated solid gains as interest rates dropped. With interest rates at current levels we would be underweight core bonds, keep durations relatively short and overweight cash.
- High-yield bonds snapped back after a tough finish to 2018. Given relatively tight spreads over high quality bonds we suggest using the current rally as an opportunity to reduce exposure.

Alternative Assets

Market Performance, First Quarter 2019

Strategies	Q1 2019	1 YR
PIMCO All Asset All Authority	3.83%	(2.78%)
AQR Diversified Arbitrage	3.43%	4.77%
Gateway	5.61%	3.24%
Vanguard REIT	17.52%	20.06%
Dreyfus Global Real Return	4.79%	7.06%

Source: Morningstar

- REITs were one of the best returning asset classes during the quarter. However, given the low level of interest rates and relatively high valuations we are likely to reduce exposure on further rallies.
- We like alternative assets as a strategic way to reduce risk and increase absolute returns in portfolios. We plan to maintain a position in alternative assets unless we see a significant pullback in traditional assets (stocks and bonds).

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3 month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
Gateway	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.

Alternative Assets		Description
Vanguard REIT	ETF	The investment seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.
Dreyfus Global Real Return	Mutual Fund	The fund allocates its investments among global equities, bonds and cash, and, generally to a lesser extent, other asset classes, including real estate, commodities, currencies and alternative or non-traditional asset classes and strategies, primarily those accessed through derivative instruments.