March 2019

Here are selected year to date return numbers through the end of February.

Stock Indexes

	(As of 02/28/19)*
Dow Jones Industrials	11.10%
S&P 500 Index	11.10%
NASDAQ Composite	13.50%
Dow Jones World Index (ex. U.S.)	9.30%

	(As of 02/28/19)*
Russell 2000	17.03%
Russell 1000 Value Index	11.23%
Russell 1000 Growth Index	12.89%

Bond Index	(As of 02/28/19)*
Barclays Cap. Aggregate Bond Composite Index	1.00%

Mutual Funds	(As of 02/28/19)*
Lipper Large-Cap Growth Index	13.38%
Lipper Large-Cap Value Index	11.01%
Lipper Small-Cap Growth Index	19.43%

(Source: The Wall Street Journal, Russell Investments & Barclays websites)

*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

FINANCIAL AND INVESTMENT PLANNING

After a sharp drop in equity prices in the 4th quarter of 2018, global markets have experienced excellent returns.

Year to Date
12-31-18 to 03-19-19

S&P 500 (price) Index	12.99%
MSCI World ex U.S. (price) Index	11.37%

Source: Raymond James

Bonds have also delivered positive total returns with the Barclays U.S. Aggregate Bond Index up 1.72% for the same period. **Source: Raymond James**

One change in equity price movement is the performance of foreign equities. As you can see from the numbers, this year the MSCI World ex U.S. Index has performed quite well, and not all that much less than the S&P 500.

This improvement in foreign equities also happened in the last part of 2018.

I mention this because we have experienced a prolonged period of domestic equity outperformance. Recently I was looking at longer term data. The foreign stock under performance versus U.S. is striking.

	12-31-01 to 03-19-19	**Annualized returns**
S&P 500 (price) Index	146.72%	5.38%
MSCI World ex U.S. (price) Index	69.82%	3.12%

Source: Raymond James

I should also mention that during this period bonds have delivered attractive returns.

	12-31-01 to 03-19-19	**Annualized returns**
Barclays U.S. Aggregate Bonds	106.27%	4.29%

Source: Raymond James

Interest rates peaked in 1981 and then entered a multi-decade decline. This led to the attractive bond returns you see. As I write this letter, the 10 year U.S. Treasury note is priced to yield less than 3%. U.S. interest rates would presumably have to fall below zero to continue to deliver comparable longer term returns.

While rates are negative in some markets, notably Japan and Germany, I believe the tail wind of substantially falling U.S. interest rates is in our collective rear view mirrors.

However, I have to wonder about international stocks. In my experience, financial markets have a way of reversion. Things that go up for a long time eventually come down, and vice versa.

There is no doubt that the so called developed international economies are growing at a slower pace than ours is. This makes me all the more curious why international equities have begun to show such attractive returns. Is this a short term pattern, or after years of poor relative performance are we entering a period of reversion where foreign stocks do well?

Naturally, I have no idea.

However, I believe it is prudent for equity investors to have foreign exposure in their balanced portfolios.

I believe there is at least one other financial market story that is worthy of highlighting. In the second half of last year the consensus of Federal Reserve observers was that the central bank would raise the Fed funds rate 2 or 3 times in 2019.

As U.S. economic growth slowed in the 4th quarter, and as U.S. equities sold off, Chairman Powell and his colleagues appeared to reconsider the interest raising plans. I say it appeared, because clarity of intentions is seldom a hallmark of Federal Reserve communications strategy.

According to Barron's magazine, the U.S. futures market is pricing a low probability of rate increases this year. This is a big deal. The level of interest rates in our economy not only affects the cost of borrowing for home purchases and other consumer items like autos, it also affects valuations of equities, bonds and income producing real estate.

In my opinion, the Federal Reserve under Chairman Powell is paying close attention to current economic conditions, as it determines monetary policy. Frankly, I am not sure if this is a good thing. However, Chairman Powell has not called me and solicited my opinion. While I am disappointed, I am not surprised.

Thanks for taking the time to read this month's letter.

Warm regards,

Carl

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- **Past performance is not indicative of future results.**
- The Dow Jones Industrials is an index of 30 stocks that is considered representative of the overall market.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.
- The Dow Jones Global ex-U.S. Total Stock Market Index includes equity securities with readily available prices that trade globally, excluding the U.S. The index is a subset of the Dow Jones Global Total Stock Market Index.
- The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks.
- Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

- The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- The Barclays Capital U.S. Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.
- Lipper Large Cap Growth Fund Index. An unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Large-Cap classification. Lipper Small Cap Growth Fund Index – an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Small-Cap classification. Lipper Large Cap Value Fund-Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) above Lipper's USDE large-cap floor. Large-cap value funds typically have below-average characteristics compared to the S&P 500 Index.
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