TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

October 2018

Quarterly Insights

EXECUTIVE SUMMARY

US Stocks Lead All Major Regions In Q3 And Year-To-Date

In the Third Quarter, the domestic S&P 500 Index was up 7.71% and is up 10.56% year-to-date. Europe was flat and Japan was modestly up (+3.81%) in Q3. Emerging Markets was slightly down in Q3 (-0.95%), but China fared much worse (-7.42%). Year-to-date, the US has significantly out-performed Europe (by 13.11%) and China (by 19.54%). The Bloomberg Barclay's US Aggregate Bond Index rose 0.01% in Q3 and is down 1.61% year-to-date. We continue to rotate the portfolio to higher quality (defensive) stocks.

Long-Term Care (LTC) Insurance: Is It Worth It?

LTC costs are an unknown factor in planning for a successful retirement. Costs can be extensive (over $100,000 a year per individual) or may be considerably less. It is natural to be concerned about a worst case scenario. When planning for LTC costs, you have two options: self-insure (fund it yourself) or purchase insurance. Many people purchase LTC insurance to protect themselves. While a policy guarantee provides peace of mind, it can be very expensive. We believe self-insuring can provide equal peace of mind. If you have not already bought insurance, we suggest self-insuring.

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Third Quarter 2018

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Long-Term Care (LTC) Insurance: Is It Worth It?

Long-term care (LTC) costs are an unknown factor in planning for a successful retirement. Costs can be extensive (over $100,000 a year per individual) or may be considerably less. It is natural to be concerned about a worst case scenario.

When planning for LTC costs, you have three options: self-insure (fund it yourself), purchase insurance, or rely on Medicaid. For the purpose of this discussion, let's deem Medicaid a bad choice because it requires you to spend down your assets first (hence relinquishing control of your care).

Self-insuring, if feasible, allows maximum flexibility. The choice to buy insurance is not as clear-cut as it used to be. At one time, LTC insurance had no limits on the Total Pool (the lifetime maximum payout). Limitless protection was desirable to say the least and made the decision to buy LTC insurance easy. However, things have changed. Insurers ran into big losses with rising costs and lifespans, forcing most to exit - hence there are only a dozen or so companies left that offer LTC coverage. For new policies, there are now lifetime limits on payouts (the Total Pool).

Many people purchase LTC insurance to protect themselves. While a policy guarantee provides peace of mind, it can be very expensive. We believe self-insuring can provide equal peace of mind.

Statistics To Consider When Deciding Whether To Self-Insure Or Buy Insurance

Usage Of LTC

Source: Morningstar

52% of people turning age 65 will need some type of LTC services in their lifetime
- **47%** Men → If needed, average # years = **1.5**
- **58%** Women → If needed, average # years = **2.5**

14% of people turning age 65 will need some type of LTC for longer than five years

Paying For LTC

57% of people turning age 65 → Will spend **less than $25,000** on LTC during their lifetimes

15% of people turning age 65 → Will spend **more than $250,000** on LTC during their lifetimes

$18,200 → Median annual cost for adult day care (5 days/week)

$97,455 → Median annual cost for nursing home (private room in 2017)

Insurance Availability For LTC

125 → Number of insurers offering LTC policies in 2000

Less Than 15 → Number of insurers offering LTC policies in 2014

Decision Tradeoff: Market Risks Versus Insurance Risks

When you self-insure LTC costs, you take the funds that you would have used to pay the insurance premiums, invest these funds on your own to cover future costs, and be subject to market risks. When you buy LTC insurance, you assume several non-financial insurance risks.

1. Insurance Acceptance

Don't automatically assume that you can buy LTC insurance. Older applicants are often denied coverage. If you have a pre-existing condition, you will likely be denied coverage.

Percentage of Applicants Denied Coverage (Individual Policies)	
Age of Applicant	**Average Declined Coverage**
Under 50	7.3%
50 to 59	13.9%
60 to 69	22.9%
70 to 79	44.8%
80 and Over	69.8%

Source: American Association For Long-Term Care Insurance

2. Insurance Risks

USAGE RISK

- High probability that you will not use full extent of your LTC coverage
- You will likely pay too much for the benefits you receive

PREMIUM RISK

- You are subject to annual premium increases
- When this happens, you have three choices: pay the higher premium, adjust your coverage downward to cover less benefits, or simply drop the coverage altogether (a waste of premiums paid to date)
- Many insurers have saddled customers with huge hikes: in a well-publicized case this year, MassMutual asked state regulators to approve increases averaging 77% per customer

COVERAGE RISK

- Will you meet the criteria (unable to perform two daily living activities) to receive the LTC benefits for which you paid and feel you deserve?

INFLATION RISK

- Health care costs have been skyrocketing
- Your long-term care insurance may not have an allowance for inflation; if it does, an allowance may make the plan prohibitively expensive

CASH FLOW RISK

- You pay the first 90 days of your LTC needs (the waiting period)
- You cover premium increases to maintain the level of your coverage as well as any amount above your "Total Pool"

SURVIVAL RISK

- Will the insurer survive? LTC insurers dropped 90% from 2000 to 2014

CASE STUDY - The LTC Insurance Decision

Genworth Life Insurance Company quotes the maximum California LTC insurance as follows:

Benefit Multiplier:	5 Years
Daily Maximum:	$300
Inflation Protection:	None
Total Pool*:	$547,500

* 5 Years x 365 days/year x $300/day

90-Day Wait Period: You Cover First $27,000

MALE	Age	Annual Premium
	40	$ 4,141
	50	$ 4,403
	60	$ 5,516
	70	$12,752

FEMALE	Age	Annual Premium
	40	$ 5,194
	50	$ 5,441
	60	$ 8,697
	70	$20,530

The "Benefit Multiplier" is available in terms of 2 years, 3 years, 4 years and 5 years. The "Daily Maximum" is available from $50 to $300 in increments of $25. Annual inflation protection (for future care costs) is available in amounts of 1%, 3%, and 5% (the premiums will be more expensive). The "Total Pool" is the maximum amount of benefits you could receive (in this case, $547,500). Notice that insurance is more expensive for women - this is because women have a longer life expectancy.

Consider Jenny, who self-insures versus buying the maximum level of LTC insurance at age 50. Let's assume that her insurance premiums will rise an average 5% a year (a modest estimate given current conditions) and she can conservatively invest the premiums she would have paid the insurance company at an annual 6% rate of return. Here are the age interval highlights of her investments assuming she is healthy through 81:

Age	Beg. Balance	Invest Premium	Return	End Balance
50	$0	$5,441	1.06	$5,767
51	$5,767	$5,713	1.06	$12,169
60	$93,406	$8,863	1.06	$108,405
63	$142,617	$10,260	1.06	$162,050
68	$258,221	$13,094	1.06	$287,594
70	$319,424	$14,437	1.06	$353,892
74	$475,143	$17,548	1.06	$522,253
81	$893,992	$24,691	1.06	$973,804

Will cover "Total Pool" **by Age 74**

LTC, if needed, on average starts at **81**

Total Premiums Invested For 31 Years: $409,701

If Jenny is healthy through 81, she would have paid over $400,000 in premiums to date if she purchased LTC insurance for maximum benefits of $500,000. Conversely, she would have almost $1 million if she self-insured.

Self-insuring is better for Jenny if she is healthy through 74 (her self-insured investment value meets the total pool). She has a great chance to do it. On average, women live to 84 and may need 2.5 years of LTC at 81. Women have a 93% chance to reach 70, a 71% chance to reach 80, and a 34% chance to reach 90 (source: The Hamilton Brookings Project).

It Is Better To Self-Insure Than Buy Insurance

Let's assess Jenny's data for self-insurance/buy insurance decisions commencing at various ages.

Decision: Self-Insure vs. Buy Insurance Start At Age:	Annual Premium (Start Value): Increases 5% Per Year	Self-Insuring Covers Total Pool ($547,500) At Age:	Self-Insured Investment Value By Age 81:
40	$5,194	65	$2,089,635
50	$5,441	74	$973,804
60	$8,697	79	$625,291
70	$20,530	82	$470,795

The earlier the start date, the higher the self-insured investment value by age 81 (the age for women where on average we may expect 2.5 years of highest LTC costs). Through any age from 40 to 70, and assuming any significant LTC costs for Jenny start at 81, self-insuring is better than buying insurance - it is just a matter to what degree. The conclusion to self-insure doesn't change no matter the combination of Gender, Age, Benefit Multiplier and Daily Maximum. When insurance risks (see page 3) are also considered (usage, premium, coverage, inflation, cash flow, survival), the decision to self-insure is clear-cut. You want to be in control versus the insurance company (possession is 9/10 of the law!).

Should Jenny buy insurance in case she has huge LTC costs early on? Maybe not. Remember that Jenny was healthy going in (no pre-existing conditions). Women have a 93% chance to reach age 70 (men have a 90% chance; source: The Hamilton Brookings Project). We believe a long-shot scenario (high LTC needs at an early age) is a reasonable chance to take versus the much-greater likelihood of paying increasing insurance premiums for several decades that are subject to risks. Also bear in mind that the most insurance available (lifetime limit of roughly $500,000) may still not entirely cover a serious situation.

A Reasonable Target: Self-Insure $250,000 For Lifetime LTC Costs

For those of you who bought LTC insurance a while back when there were no limits on the total pool, we congratulate you: the terms of your contract are likely worthwhile.

For those of you who have not bought LTC insurance, we suggest self-insuring to a target $250,000.

The LTC costs we are most concerned about are the "upper-end costs": the roughly $100,000 median annual cost for a nursing home versus the roughly $18,000 median annual cost for adult day care. By far the highest LTC you may encounter is a nursing home. The average length of a nursing home stay is 2.6 years for women and 2.3 years for men (source: American Association For Long-Term Care Insurance). Hence we believe $250,000* is a safe amount to earmark for LTC costs - 85% of people spend less than $250,000 in their lifetimes.

*** 2.5 years (average stay in a nursing home if needed) X $100,000 (average median annual cost) = $250,000**

Introducing The "Communication Services" Sector In The S&P 500 Index

As of September 21, 2018, S&P Dow Jones and MSCI Inc. expanded the Telecommunication Services sector to include companies from the Consumer Discretionary and Information Technology sectors. The sector was renamed "Communication Services". This is a major change. We want to bring it to your attention because your quarterly statements now reflect this new sector.

Why now? Communication is changing. With the evolution of technology, the way we communicate and interact has been significantly transformed. Media, communication and content creation are intertwined.

- Communication has been enhanced through search engines, social media and networking platforms
- Our consumption of entertainment has evolved
- The Internet is now a medium of delivery for products and services, as evidenced by mobile transactions

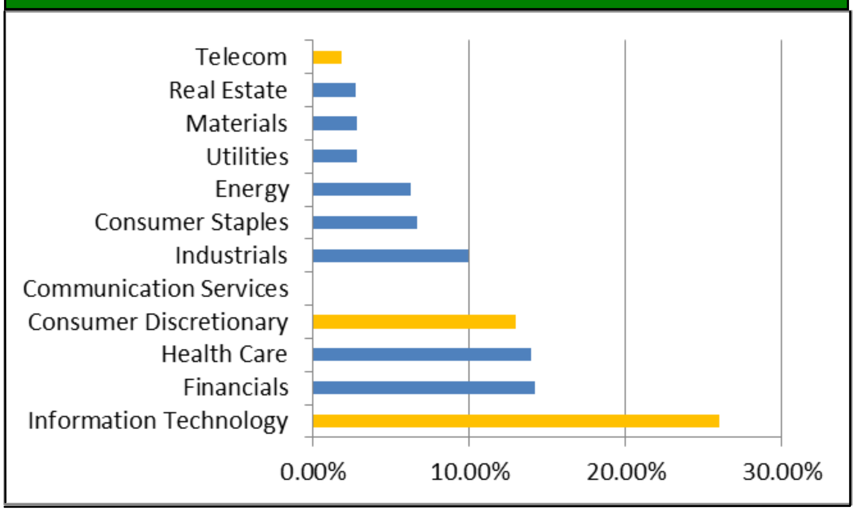
Most of our clients will see sector adjustments in the following stocks:

Walt Disney: moved from Consumer Discretionary to Communication Services

AT&T: moved from Telecom to Communication Services

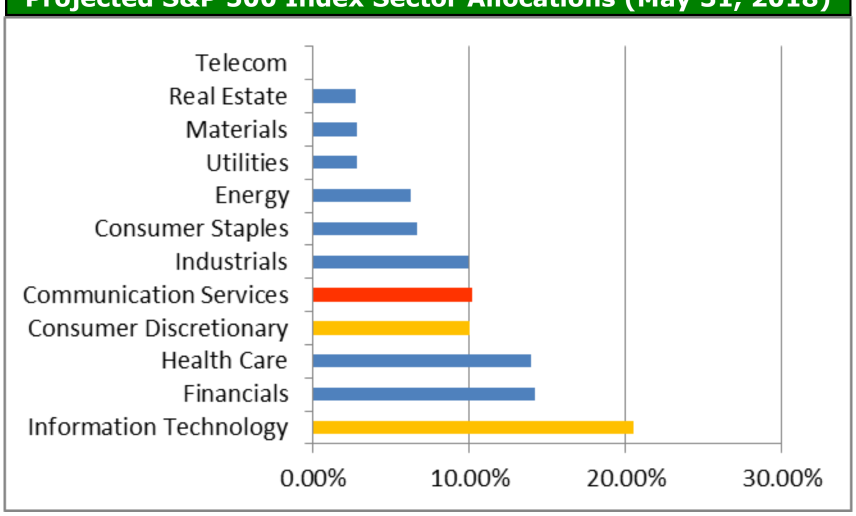
Facebook: moved from Technology to Communication Services

S&P 500 Index Sector Allocations (May 31, 2018)



Source: State Street Global Advisors

Projected S&P 500 Index Sector Allocations (May 31, 2018)



Summary Of Adjustments (May 31, 2018)

Sector	Action	Adjustment (%)
Information Technology	Reduced	-5.47%
Consumer Discretionary	Reduced	-2.97%
Telecom	Removed	-1.79%
Communication Services	Added	+10.19%

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Equity Index Performance

Index	Q3 2018	Year-To-Date
S&P 500 (Domestic)	**7.71%**	**10.56%**
MSCI EAFE (Foreign) *	**1.42%**	**(0.98%)**
MSCI Emerging Markets	**(0.95%)**	**(7.39%)**
MSCI EMU (European Monetary Union)	**(0.03%)**	**(2.55%)**
MSCI Japan	**3.81%**	**1.89%**

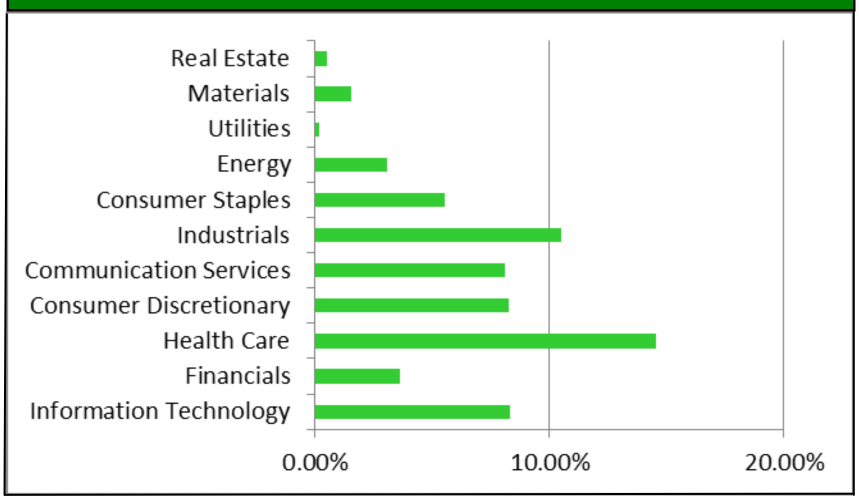
* Europe, Australia and the Far East

Year-to-date, the US has significantly out-performed Europe (by 13.11%) and China (by 19.54%). Currency fluctuation explains only part of the out-performance: the US Dollar has appreciated 3.39% versus the Euro and 5.55% versus the Chinese Yuan (source: Telemet). We believe a large component of US out-performance is attributable to trade tariff tensions. The market has regarded the US as being in the position of greatest strength and the best place to invest.

Health Care Sector Is The Standout In Q3

By a wide margin, Health Care (+14.52%) led S&P 500 Index sector performance in the Third Quarter.

S&P 500 Index Sector Performance For Q3 2018



Source: Telemet

We postulate the main reason the Health Care sector rallied so strongly in Q3 was there was lower political rhetoric regarding the Affordable Care Act. Other events took center stage. In the upcoming mid-term elections, the health care debate will likely return. In general, the sector is very attractive at this time:

- The sector has out-performed during Fed hiking cycles on average since 1970 (source: BCA Research)
- Given an aging population, demand is on the rise for health care products and services
- The companies' balance sheets are solid
- Dividend yields are attractive

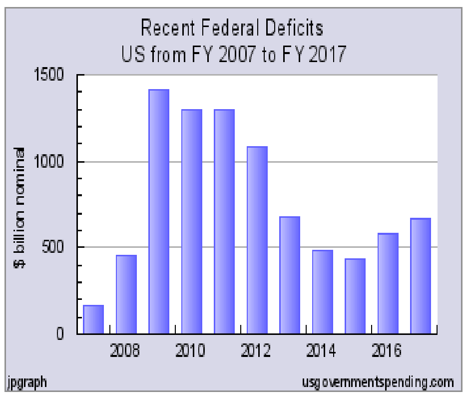
Bond Yields Are Rising

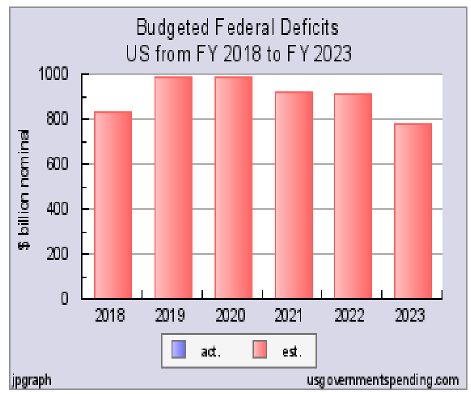
On September 26, the Federal Reserve raised its benchmark interest rate by 0.25% to a range of 2.00% to 2.25%. This was the third 0.25% rate hike this year (the last one was on June 14). As interest rates rise, bond prices fall. The Bloomberg Barclay's US Aggregate Bond Index rose 0.01% in the Third Quarter, and is down 1.61% year-to-date. While the Q3 bond market was lackluster, the good news is that interest rates are rising for investors seeking more yield. Another 0.25% Fed rate hike is expected in December, as are three 0.25% rate hikes in 2019 and one 0.25% rate hike in 2020. Higher bond yields allow better portfolio positioning regarding disciplined asset allocation, risk control, and meeting income needs.

The Evolution Of Higher Bond Yields

New Tax Cuts → **Rising Deficits** → **More Treasury Bonds Issued** → **Higher Interest Rates** → **Higher Bond Yields**

Significant 2018 tax cuts were passed before the new year (December 27, 2017). Lower tax revenues have caused rising deficits. Roughly speaking, we have gone from a deficit of $600 billion (2017) to an estimated $800 billion (2018) to an estimated $1 trillion (2019). These deficit levels are rising at a staggering rate in a good economy.





To finance the rising deficit and the unwinding of the Federal Reserve's balance sheet, the US Treasury is on track to issue over $1 trillion in marketable debt this year. This is the most debt issued since 2012. According to Oxford Economics, the Treasury is expected to issue up to $1.4 trillion in debt during 2019. As the US government assumes increasing debt obligations, it has to compensate its lenders higher interest rates for taking on additional risk. This is one reason why bond yields are rising. Other reasons include: tighter Fed policy, accelerating economic growth, and modestly higher inflation concerns.

In July 2016, the 10-Year Treasury yield bottomed at 1.37%. When President Trump mentioned major tax cuts in his election campaign, the yield rose to 1.70% by November 8, 2016. Immediately after the surprise election win (November 9), the yield skyrocketed to 2.63%. As Trump's proposed tax cuts were passed and initiated this year, we are seeing the effects. The yield rose to 3.05% (end of Q3) and has continued its ascent early in Q4 (the yield reached 3.23% on October 8).

This is a potential opportunity for investors, especially those who are retired and have income requirements. Higher bond yields take the pressure off the stock returns needed to maintain a safe retirement.

We made three portfolio adjustments in Q3. The rationale for these moves was consistent with the 2018 style rotation strategy we outlined at the beginning of the year. From a market cap standpoint, we continue to shift to larger companies with predictable revenue streams (higher quality defensive stocks).

We bought AT&T Inc (symbol: T), a large-cap ($234 billion market cap) wireless and media company. AT&T shares a dominant position with Verizon in the $180 billion U.S. wireless market (together they have a 70% market share). Recognizing that its U.S. wireless market is maturing, AT&T has made two major acquisitions: DirectTV and TimeWarner. AT&T's low current valuation (a price/earnings ratio of roughly 6 as compared to an S&P 500 Index average of close to 20), in tandem with its high current dividend yield (6%), is attractive.

We sold Martin Marrietta Materials Inc (symbol: MLM) and Cimarex Energy Co (symbol: XEC). MLM ($13 billion market cap) was well-positioned to benefit from the high level of infrastructure spending initially signalled by the new Administration – but this spending never materialized. XEC ($9 billion market cap), a U.S. company engaged in the exploration and production of oil and gas (operations in Oklahoma, Texas, and New Mexico), did not perform to our expectations.

We started to "tax-loss sell" for 2018 in select taxable accounts. Tax-loss selling is when we try to mitigate/ reduce realized capital gains by realizing losses with stocks whose price is (currently) below acquisition cost. We will continue to tax-loss sell when feasible as we approach year-end in an effort to be as tax-efficient as possible. As we are not tax professionals, we are happy to work with you and/or your tax advisor as needed.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

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