TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

January 2019

Quarterly Insights

EXECUTIVE SUMMARY

2018 - There Was Nowhere To Hide

In 2018, the domestic S&P 500 Index was down 4.38%. This was the good news. Other developed markets and Emerging Markets were down double digits. Our 2018 market prediction for the S&P (+6%) was dead on until an ugly December. At that point, we concluded that we have been in a bear market since late January 2018. We reflect on 2018 as a year of US market volatility and resilience in the midst of constant turbulence. In order to out-perform the S&P 500 Index in 2018, it was literally imperative to have a huge stock focus on "US Large Cap Growth". Fortunately we did.

We Believe The S&P 500 Index Will Rise 8% In 2019

We believe the S&P 500 Index will rise 8% in 2019. However, we don't expect a smooth ascent. We expect the final months of an average-duration bear market to carry over into Q1. During Q1, we foresee improved clarity/resolution regarding Fed interest rates and Chinese trade relations (two pressures that weighed heavily on the market in 2018). Greater certainty in these areas should catapult a significant bounce off the bear market bottom. In anticipation, we will add some smaller market-cap companies to the portfolio. Small cap companies tend to bounce harder (lead the market) off the bottom.

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Fourth Quarter 2018

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Stock Outlook: We Believe The S&P 500 Index Will Rise 8% In 2019

We believe the S&P 500 Index will rise 8% in 2019. However, we don't expect a smooth ascent. Negative momentum from Q4 2018 will likely carry through the early part of 2019 and then be followed by a recovery. The pressures that culminated in a tough 2018 (-4.38%) - Fed rate hike sensitivity, the China Trade War, U.K. BREXIT challenges, and US political turbulence - will not be immediately resolved. However, we expect greater clarity by the end of Q1. The US business environment remains strong. We have

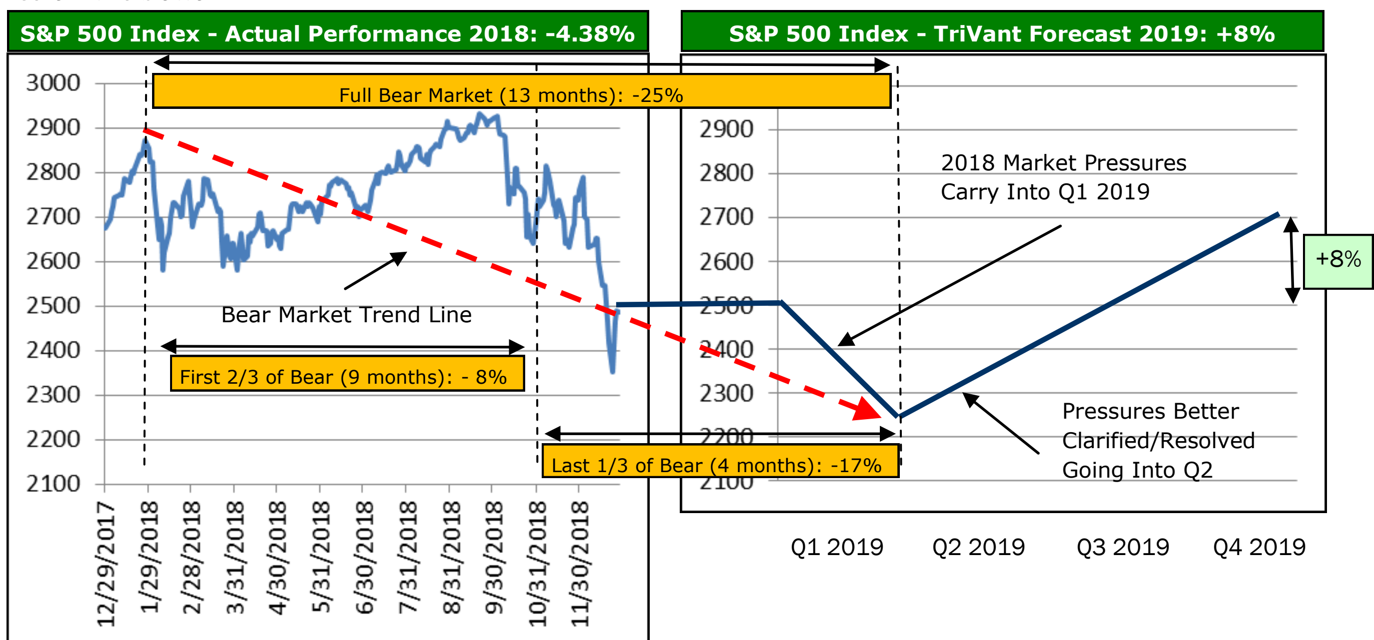
- A healthy economy (the Federal Reserve estimates 2019 US GDP growth of 2.3%)
- Very low unemployment (the Bureau of Labor Statistics reports a 3.9% December unemployment rate)
- Decent S&P 500 earnings (the Wall Street consensus estimate is a rise of 8% in 2019)
- Reasonable market valuation (the current trailing PE ratio is 15.8 according to Lipper Alpha Insight)

Investor patience should be rewarded.

We Believe We Are In The Midst Of A Bear Market That Will Bounce Off The Bottom

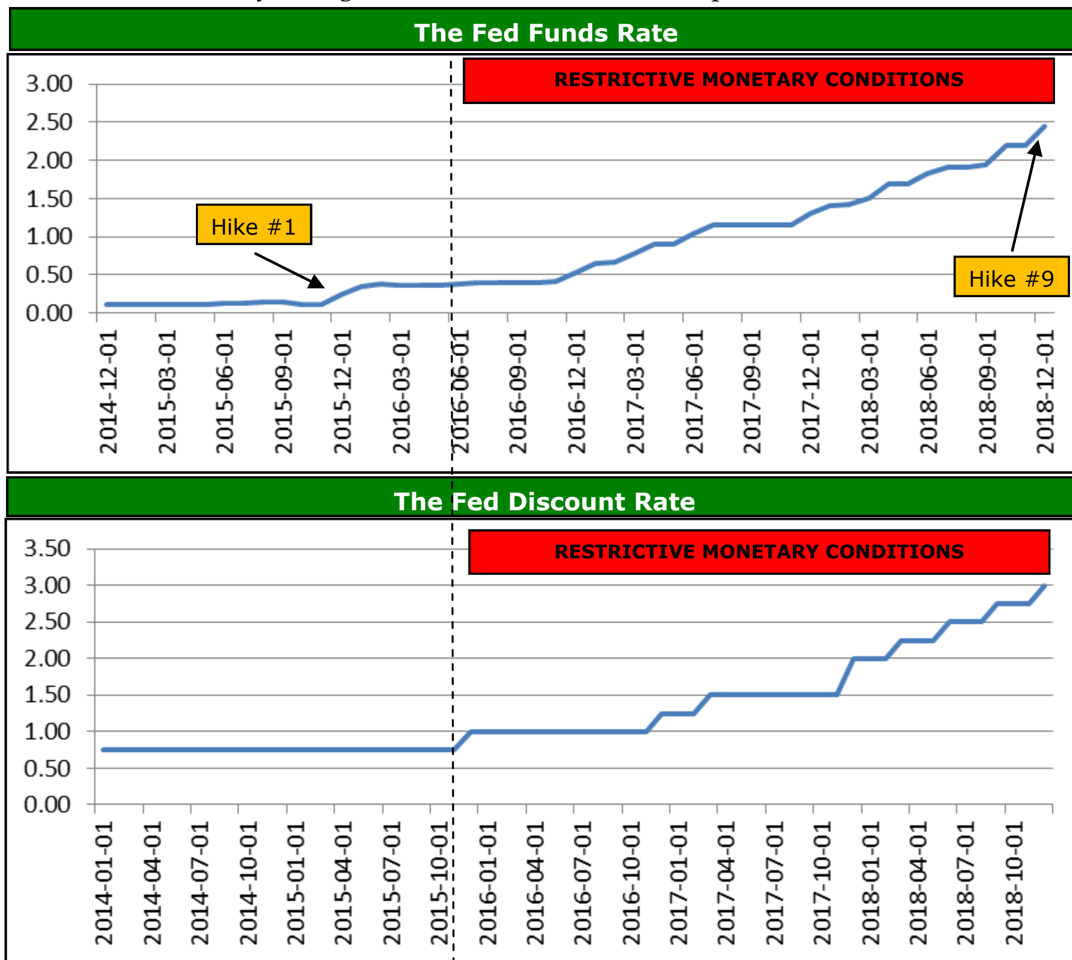
Are we in a market correction or a bear market? How do we distinguish a market correction from a bear market? The answer is simpler than you think: magnitude and duration. By definition, a market correction refers to a price decline of at least 10%. A market correction is characterized by a sizeable (high magnitude) and quick (short duration) market decline followed by an equally considerable and quick bounce-back. Corrections are normal in bull markets. We do not believe we are in a market correction.

A bear market is characterized by a moderate (low magnitude) and gradual (long duration) market decline followed by a sizeable and quick market decline. Some describe bear markets in the context of a "one-third, two-thirds" rule. The first one-third of the bear market decline occurs over two-thirds of its duration. The final two-thirds of the bear market decline occurs over the final one-third of its duration. By definition, a bear market is when prices have fallen 20% or more. On average, bear markets decline 30% (magnitude) and last 13 months (duration). We believe we are in the midst of a bear market that started in late January 2018. Further, we believe it will have below-average magnitude and average duration given strong economic conditions. We think uncertainties should peak and decline in Q1. This is when we expect the market to bounce off the bottom.



We Are Still In Restrictive Monetary Conditions

The Fed Funds Rate has been hiked nine times (0.25% per hike) since the rate went to zero at the end of 2008. With four rate hikes in 2018, we are still in "Restrictive Monetary Conditions" - the Fed Funds Rate and Fed Discount Rate are simultaneously rising. At this time, the Fed anticipates two more rate hikes in 2019.



Source: Federal Reserve Bank Economic Data (FRED)

When Will The Fed Pause Rate Hikes? Maybe Sooner Than Anticipated

The Fed dual mandate is stable prices and full employment. Right now, the Fed has comfortably met these directives (see just-released data below). Looking ahead, the Fed currently anticipates two more 2019 hikes to bring the Fed Funds Rate to roughly 3.00%. However, it is interesting to note that the Fed anticipates this 3.00% level through 2021. Put another way, there is plenty of time to reach the anticipated target. In our view, this allows the Fed the flexibility to pause rate hikes anytime in 2019 if it deems a pause is warranted due to market conditions. We anticipate a pause. With a pause, we will shift from "restrictive" to "indeterminate" monetary conditions (the Fed Funds Rate and Fed Discount Rate will not be simultaneously rising or falling). While the S&P 500 Index historically averages an annual 6.25% under "restrictive conditions", it averages 11.10% under "indeterminate conditions" and 14.36% under "expansive conditions".

Median Economic Projections Of The Federal Reserve Board Members And Bank Presidents (released December 19, 2018)

VARIABLE	2018	2019	2020	2021	LONGER RUN
Change In Real GDP	3.0	2.3	2.0	1.8	1.9
Unemployment Rate	3.7	3.5	3.6	3.8	4.4
PCE Inflation	1.9	1.9	2.1	2.1	2.0
Projected Fed Funds Rate	2.4	2.9	3.1	3.1	2.8

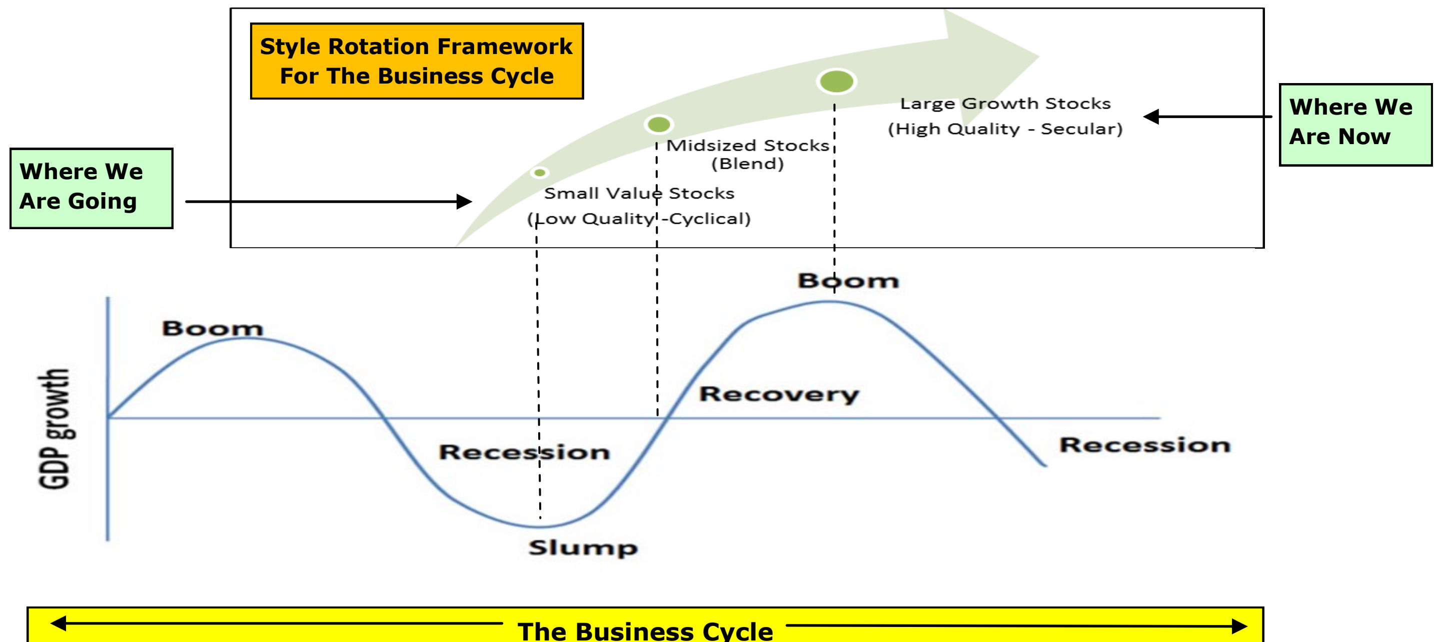
Conditions Are Aligned For A Bear Market Bottom In The Next Few Months

The pressures that culminated in a tough 2018 (-4.38%) - Fed rate hike sensitivity, the China Trade War, BREXIT uncertainty in the U.K. and US political turbulence - will not be immediately resolved. However, we expect greater clarity by the end of Q1, especially regarding the Fed and China. The market likes clarity versus uncertainty. This is why we anticipate a bear market bottom fairly soon.

Market Pressure	Status	Month Of Clarity/Resolution
Fed Rate Hikes	The next four Fed meetings are January 29-30, March 19-20, April/May 30-1, and June 18-19. We expect the Fed to signal the likelihood of a further hike by its March meeting. A rate pause will not surprise us and could catapult the bounce off the bottom.	**Mid-March**
China Trade War BREXIT	President Trump and Chinese President Xi Jinping have not yet agreed to a trade deal, but in December they called a 90-day trade war truce until March 1. We believe it is in the interest of both sides to agree to a deal sooner versus later. The U.K. is set to leave the EU on March 29, but this exit could be delayed.	**Late February/Early March**
US Political Turbulence	US political turbulence is tough to handicap. There is a lot going on. The first step is to solve the partial government shut-down. A new Democrat House Majority will change the political landscape. The Mueller Investigation weighs large on the stability of the White House. Whatever happens, we believe clarity will be good for the market - but this will likely take longer than a few months.	**Tough To Say** (will happen in increments)

2019 Portfolio Adjustments: We Expect To Add Some Small Cap Value Stocks

While we are not in a recession, GDP growth is slowing. Styles go in and out of favor as the business cycle evolves. Smaller companies do very well off the bottom of a business cycle because their businesses (and hence their earnings) are more cyclical. We deem small companies' earnings as "low quality" (cyclical) because their earnings are closely aligned with the economy (they move up and down in cycles). As the market cycle matures, the large companies with "secular" (high quality) earnings find favor as their earnings are less dependent on an improving economy. Up to now, we have favored large growth stocks because we are at the mature phase of the business cycle. Off the bottom of a bear market, we will add some small cap value stocks.



Our 2018 Market Prediction Was Inaccurate

We predicted the S&P 500 Index would rise 6% in 2018 and that is not what happened - the index fell 4.38%. We were not alone in being surprised on the downside - all major firms predicted positive 2018 returns (see Quarterly Insights January 2018, page 3). The most pessimistic prediction was 3% (Morgan Stanley) and the most optimistic prediction was 12% (JP Morgan Chase). Our market expectation was mainly predicated on prevailing restrictive monetary conditions. These were our thoughts:

"We believe the S&P 500 Index will rise 6% in 2018. The Fed has hiked rates four times in the last 14 months. Another three rate hikes are anticipated in 2018. We have entered a period of restrictive monetary conditions (a situation where both the Fed Funds Rate and Fed Discount Rate are rising in tandem). Historically (1966-2013) under these conditions, the S&P 500 Index has lagged its baseline in terms of average annual performance (6% versus 10%). We believe portfolio adjustments are in order."

We also viewed the prospect of a healthy economy as a catalyst for our 2018 stock market expectation:
"In this environment, we have

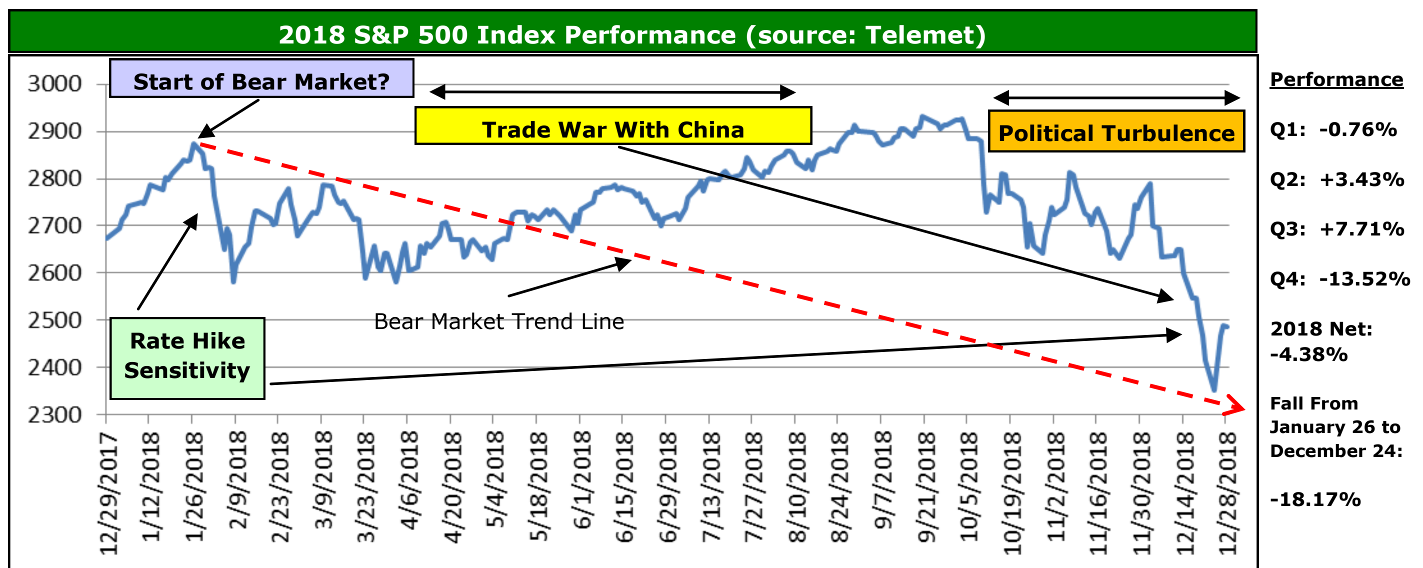
- *A very healthy economy (Merrill Lynch estimates 2018 US GDP growth of 2.4% allowing for tax cuts)*
- *Very low unemployment (4.1% according to the Bureau of Labor Statistics)*
- *Decent S&P 500 earnings (Merrill Lynch estimates a 2018 rise of 8% allowing for tax cuts)*
- *Reasonable market valuation (the current PE ratio is 22 and we view the appropriate baseline at 25)"*

Our Base Assumptions Were Accurate

Our 2018 base assumptions were accurate. The Fed hiked rates four times (three hikes were anticipated). US GDP growth is 3.0% and unemployment is 3.9% (Bureau of Labor Statistics). The S&P 500 Q3 2018 blended revenue growth estimate is 8.6% and the current trailing PE ratio is 15.8 (source: Lipper Alpha Insight).

What Did We Miss?

1. High Degree Of Political Turbulence - unprecedented Washington chaos finally rattled investors in Q4.
2. Trade War With China - "flight to safety" was good for US markets in Q2/Q3 but "no resolution" hurt Q4.
3. High Sensitivity To Rate Hikes - investors reacted harshly to anticipated hikes in February and December.
4. The Beginning Of What We Believe Is A Bear Market (January 26, see page 2 for detailed discussion).



2018 - There Was Nowhere To Hide

We reflect on 2018 as a year of US market volatility and resilience in the midst of constant turbulence. Eleven months into the year, we were feeling pretty good about ourselves. Why? After previously nailing our S&P 500 Index prediction for 2017 (+20%), the 2018 S&P 500 Index performance (+6.26% as at December 3) was identical to our 2018 forecast (+6%). Then all hell broke loose in December. The US market succumbed to simultaneous pressures of US political turbulence, the trade war with China, BREXIT and high investor sensitivity to anticipated Fed rate hikes. While these pressures individually surfaced at different times throughout 2018, they never took center stage at the same time. The US market proved resilient to these pressures on a case-by-case basis throughout the year - until December, where these pressures collectively wreaked havoc (see chart on page 5). There was nowhere to hide in 2018 - domestically or globally.

1. The US Was The Best Place To Be

The US significantly led other developed markets as well as Emerging Markets. Reasons include a strong US Dollar (currency translation), problems in Europe (upcoming leadership shift in Germany, political turmoil in France, BREXIT issues in the U.K.) and a "flight to quality" (initial response to the ongoing China Trade War). Germany (-22.17%,) France (-12.76%), the U.K. (-14.15%) and China (-18.88%) had rough years.

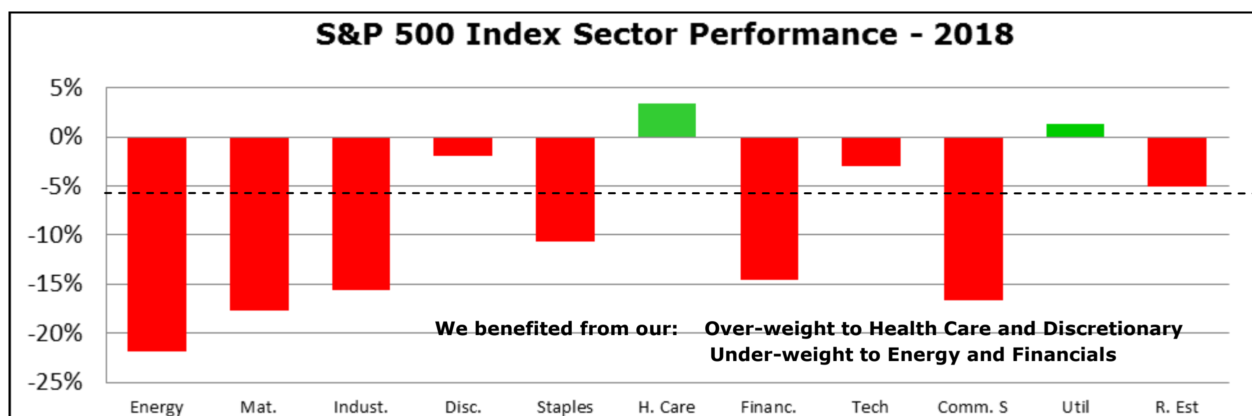
Equity Index Performance

Index	2018
S&P 500 (Domestic)	**(4.38%)**
MSCI EAFE (Foreign) *	**(13.79%)**
MSCI Emerging Markets	**(14.58%)**
MSCI EMU (European Monetary Union)	**(16.90%)**
MSCI Japan	**(12.88%)**

* Europe, Australia and the Far East

2. Health Care And Utilities Were The Only Positive Sectors

Only two sectors were positive: Health Care and Utilities. Only four sectors out-performed the S&P 500 Index: Health Care, Utilities, Discretionary and Technology. Real Estate was in line with the index. All other sectors were major laggards, including Communication Services. You may recall this sector was recently created (September 21) by reducing the Technology (by 5.47%) and Discretionary (by 2.97%) sectors, as well as removing the Telecom sector (1.79%). Please see our Quarterly Insights October 2018 (page 6) for details.



2018 - Our Portfolio Positioning Allowed Us To Avert Almost All Of The Downside

We have been in "Restrictive Monetary Conditions" since June 2016, an environment where the Fed Funds Rate and the Fed Discount Rate are simultaneously rising (see Quarterly Insights January 2018, page 2). At the beginning of 2018, we outlined the following portfolio strategies in consideration of restrictive conditions:

2018 - Adjustments Under Restrictive Monetary Conditions	
Observation Under Restrictive Conditions	**Portfolio Action**
S&P 500 Index Performs Below Baseline Average	Rotate to higher quality (defensive) stocks
Emerging Markets Out-Perform S&P 500 Index	Increase Emerging Markets
EAFE Index Does Not Out-Perform S&P 500 Index	Maintain or Reduce European Exposure
Corporate Bonds Under-Perform Other Bonds	Reduce Corporate Bonds Increase Treasurys
Higher Inflation	Maintain TIPS (Inflation-Protected Bonds)

We have had a large cap growth focus (higher quality stocks) for several years. In 2018, we made several equity portfolio adjustments to further shift to larger companies with predictable revenue streams*:

Date	Portfolio Adjustment (* Due To Customization, May Not Have Applied To All Accounts)
October 25	Bought Alibaba (symbol: BABA), a $364B market cap leading Chinese online company. Sold Wells Fargo (symbol: WFC), a $244B market cap US bank.
August 13	Bought AT&T (symbol: T), a $234B dominant US wireless and media company. Sold Martin Marrieta (symbol: MLM), a $13B US producer of construction aggregates. Sold Cimarex Energy (symbol: XEC), a $9B US oil and gas explorer/producer.
April 27	Bought Anheuser-Busch InBev (symbol: BUD), a $170B international beer company. Pared back Booking Holdings (symbol: BKNG), a $104B international travel booker. Pared back Western Alliance (symbol: WAL), a $6B regional US bank.
March 9	Bought Medtronic (symbol: MDT), a $111B international medical device company. Sold PulteGroup (symbol: PHM), a $9B leading US homebuilder.
February 6	Bought Merck (symbol: MRK), a $151B leading US pharmaceutical company. Sold Fiserv (symbol: FISV), a $27B leading US payment processor for banks.

Our equity portfolio is currently 85% US and 15% foreign, somewhat unchanged from 2017. This was good in 2018: "US Large Cap Growth" was by far the best place to be for stocks. Increasing Emerging Markets in Q4 (purchase of Alibaba) was well-timed as we missed the brunt of the Q2/Q3 market fall in China. With rising rates, companies carrying large levels of debt got hurt - it was fortunate we reduced our corporate bonds.

Domestic Index / Security	2018 Performance (source: Telemet)
S&P 500 Total Return (US Large Cap)	-4.38%
S&P 500 Growth (US Large Cap Growth)	**-1.39%**
S&P 500 Value (US Large Cap Value)	-11.29%
Russell 2000 (US Small Cap)	-12.18%
Russell 2000 Growth (US Small Cap Growth)	- 9.93%
Russell 2000 Value (US Small Cap Value)	-14.58%
iShares Investment Grade Bonds (symbol: LQD)	Roughly -2% (includes dividends)
Bloomberg Barclay's US Aggregate Bond Index	+0.01% (Flat)

What Does All This Mean?

In 2018, Our Positioning Allowed Us To Avert Almost All Of The Downside

Give Your Young Relative A $500,000+ Retirement Nest Egg For Only $5,000!

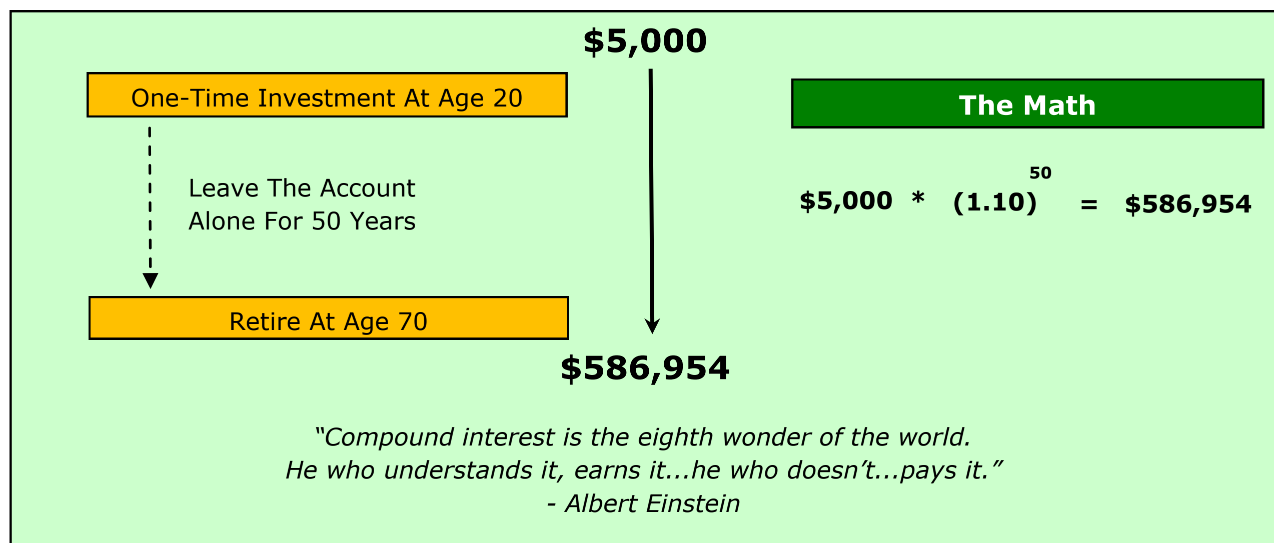
The Roth IRA is an individual retirement account that allows a person to set aside after-tax income up to a specified amount each year. Both earnings on the account and withdrawals after age 59.5 are tax-free. You can contribute up to your "earned income" in the year you make a Roth contribution. Roth IRA contribution limits for someone under 50 years old are $5,500 in 2018 and $6,000 in 2019.

There is no age limit for having a Roth IRA. Perhaps the greatest gift you can give a young family member is to initially fund his/her Roth IRA account (assuming he/she has "earned income" in the calendar tax year to qualify for a Roth IRA contribution).

Imagine your 20-year old child/grand-child/nephew/niece has a summer job between college semesters where he/she has "earned income" of $5,000. He/she can contribute a maximum $5,000 to his/her Roth IRA but likely lacks the funds to do it. You can do it instead.

A $5,000 one-time contribution on his/her behalf will be a huge jump-start to his/her safe retirement! Assuming he/she invests 100% in stocks, leaves the account alone for 50 years (age of retirement) and earns the historical 10% average annual rate of return for stocks,

$5,000 will compound to $586,954 (117 times the initial investment)!



You have from January 1, 2018 to April 15, 2019 to make a 2018 Roth IRA contribution. Contact us for further details and assistance in setting up an account.

Benjamin Franklin & Compound Interest

In 1790, Benjamin Franklin died and left the equivalent of $4,400 each to the cities of Boston and Philadelphia. He stipulated that

1. The money be loaned to / invested with people proven worthy of a loan
2. The cities would have access to a portion of the funds after 100 years and receive the remaining funds after 200 years

When the cities received their balances after 200 years, the combined bequest had growth to $6.5 million.

Your Portfolio

We made several portfolio adjustments in 2018 to respond to changing market conditions. We plan to do the same in 2019. As your portfolio manager, we are not dealing with market certainty and we are always ready to adjust on the fly. In looking ahead, we are confident in the market and its underlying fundamentals.

We know that it is very difficult for you to watch the market when it is highly volatile. December was a horrible month. During times such as these, we think it is important to keep things in perspective.

It is inevitable that the market will go through "normal corrections". However, 75% of the time, annual market returns are positive and the average annual stock market return over time ("the baseline return") has averaged roughly 10%.

It is also inevitable that we will be in a bear market 15% of the time. We believe we are in one right now, but also believe that it is near the end.

TriVant has been in operation 15 years. We have seen two bear markets (2008 and now) during this time frame. This translates to managing through a bear market 15% of the time - so we are par for the course.

History shows significant bounces off bear market bottoms. As hard as it may be, keep the faith.
Patience will be a virtue.

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. Thank you for your continued confidence in TriVant.

Respectfully submitted,

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Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.