2020 Investment Outlook & Portfolio Strategy

RSG ADVISORY

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Dear Investors & Friends,

What a great way to end the decade! In a complete reversal of 2018's widespread losses, every major asset class we track was up last year (see Page 4). Importantly, stocks outperformed bonds by a wide margin. The S&P 500 Stock Index posted a +31.3% return (its second best performance since 1997) and the U.S. Barclay's Aggregate Bond Index was up +8.9% last year.

The 2019 rally surprised many investors as there was a wall-of-worry that included trade uncertainties, investigation into U.S. political meddling, and fears of an imminent recession. It might seem like old history now, but many stock markets lost around 20% near the end of 2018. It is telling that a near panic led individual investors to buy a record $850 billion of bond funds (J.P. Morgan, 12/12/19). It is a reminder of the perils of investing based on emotion; we did well to stay the course.

We continue to expect that stocks will advance in 2020, albeit at a reduced pace and accompanied by materially higher volatility. Our high-level themes and strategy played out well this past year and remain largely intact. We are of the opinion that record low interest rates and unemployment, combined with short term fiscal stimulus from congress's record $1.4 trillion spending package, will continue to bolster stocks. Yet we are cognizant that the market may be due for a modest correction as it navigates numerous political, geopolitical, and economic factors.

<u>Our 2020 Investment Outlook</u>

Driven by uncertainty, significantly higher future volatility seems likely. We plan to lean on changing data signals for possible portfolio movements. Among other variables, we expect the recent surge in stocks, geopolitical tension, trade issues, the election season, and the actions of an unpredictable President to drive elevated levels of swings in global investments.

Stocks will look beyond the upcoming elections and end higher when the dust settles. The current consensus seems to be that there will be political deadlock, specifically that Democrats will keep the House and Republicans will keep the Senate. Though election years tend to be volatile, political deadlock has historically been positive for stock markets (see Page 5). A solid U.S. economy and low interest rates should underpin the market.

Geopolitical tension, trade, and impeachment will be headline news, but are best observed and not acted on. Geopolitics, such as the recent killing of Iranian's military leader in the Middle East, are disconcerting and may move markets, is an example. However, we believe it is another act in a very long play. The U.S. has had direct military involvement in the region since 1958. With respect to trade negotiations, we believe they will become more common place in the years to come as the world becomes even more integrated. Near-term we think trade outcomes might prove to be better than expected, in part driven by the President's interest to positively impact the economy to bolster his chances at the ballot box. Finally, on the issue of impeachment, we think it is old news at this point and has been priced into the market.

Interest rates are at record lows and we expect them to stay low. The Fed has inferred that it will leave rates unchanged through the end of 2020. We believe record low interest rates are a key factor facing investors both in the near and long-term. We don't expect interest rates to move much higher in the years to come - advances in technology and global competition are putting structural pressure on wage growth and inflation. Low, and even negative, interest rates around the world suggest just how pervasive these trends are (see Page 6).

We believe we are late in the economic cycle, not at the end of the cycle. Unemployment remains low, and the recently approved $1.4 trillion spending package indicates there is political will to energize the economy. However, while some data points seem to indicate a slowing, we don't see a recession over the coming months.

We continue to expect a rotation from well recognized U.S. stocks into other assets. As the U.S. economy moderates, there is increased likelihood that there will be a rotation in asset class outperformance. We wrote last year that large well-known U.S stocks had outperformed for eight years and seemed ready for a pause. Now on their ninth-year outperforming, our conviction is higher.

Our Portfolio Strategy

Rely on changing data signals for possible portfolio movements. While markets do not repeat, we do believe they rhyme. As such, we use a number of economic and market indicators such as interest rates, credit spreads, trends in employment and purchasing expectations help us make informed investment allocation decisions (see Page 7).

The elections provide a good example of how economic indicators can impact our positioning. Consider a presidential candidate seen as negative for the economy showing promise in the polls. Rather than reacting to news media and polls, we would monitor economic signals for signs to modify our allocations. This occurred in the Trump presidential win, which was expected to result in a pullback, and instead fueled markets. We believe we will be well served by a data driven approach in this environment, which seems likely to be emotion-prone and volatile.

Maintain our incremental overweight of stocks versus bonds. While we believe that a repeat performance of 2019's stock rally is unlikely, we continue to expect that stocks will end the year higher. Low structural interest rates and significant fiscal stimulus are central to our calculus.

Our overweight of stocks is currently primarily achieved through an overweight to international developed stocks versus bonds. International stocks seem compelling, especially versus low yielding bonds. The MSCI EAFE International Developed Index has an attractive dividend yield of 3.2%, and we believe their earnings growth gives them reasonable upside potential.

Evaluate investments in emerging markets. Over long stretches, we believe emerging markets are well positioned to outperform other asset classes. A combination of high growth and relatively low valuations has historically buoyed their performance. They seem especially attractive today, as they have lagged U.S. Stocks over the last decade and appear ready for a catch up (see Page 8).

Seek ways to broaden individual stock exposure. The S&P 500 has become increasingly concentrated in a few stocks. For example, four tech companies alone contributed +20.1% of the total S&P 500 Index +31.3% return last year (see Page 9). As was the case during the dotcom bust, concentration can work well on the upside but can be painful on the downside. We are evaluating ETFs which have a broader stock exposure and are less reliant on a small number of stocks.

Maintain a meaningful allocation to higher quality bonds. We believe stocks will continue to advance and a recession is not imminent. However, certain economic signals such as short-term interest rates exceeding long-term rates suggest to us that risks have increased. As such, our tilt towards higher quality income-producing assets seems increasingly appropriate within our overall strategic bond allocations, understanding they may weigh on near-term returns. That said, we are still actively searching bond options with higher yields that may carry relatively low risk.

Defining an outlook and strategy helps us develop a well-considered investment action plan. Diversification reduces our need to make significant strategy changes. What makes a broad portfolio so compelling is that it reduces the reliance on a singular asset class to deliver competitive returns (see Page 10). Should large market swings occur, we aim to thoughtfully respond to unfolding events and find opportunity to add value. While the next decade will certainly bring change, the mainstays of our approach will not. Capital preservation, diversification, and patient long-term investing will remain the anchors of our strategy.

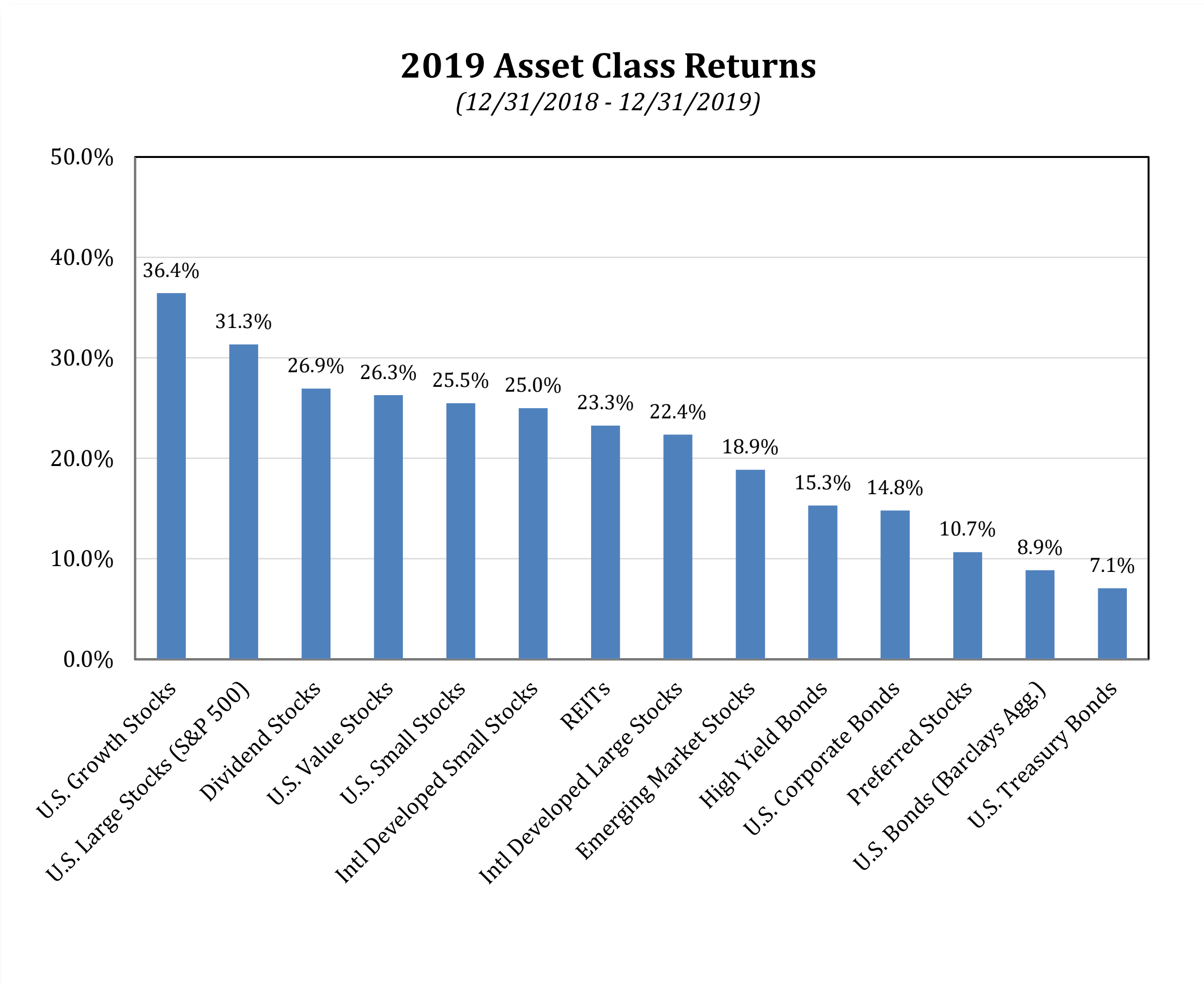
We wish you and your families all the best for the coming year!

All the best,

Your RSG Advisory Team

2019 Investment Returns

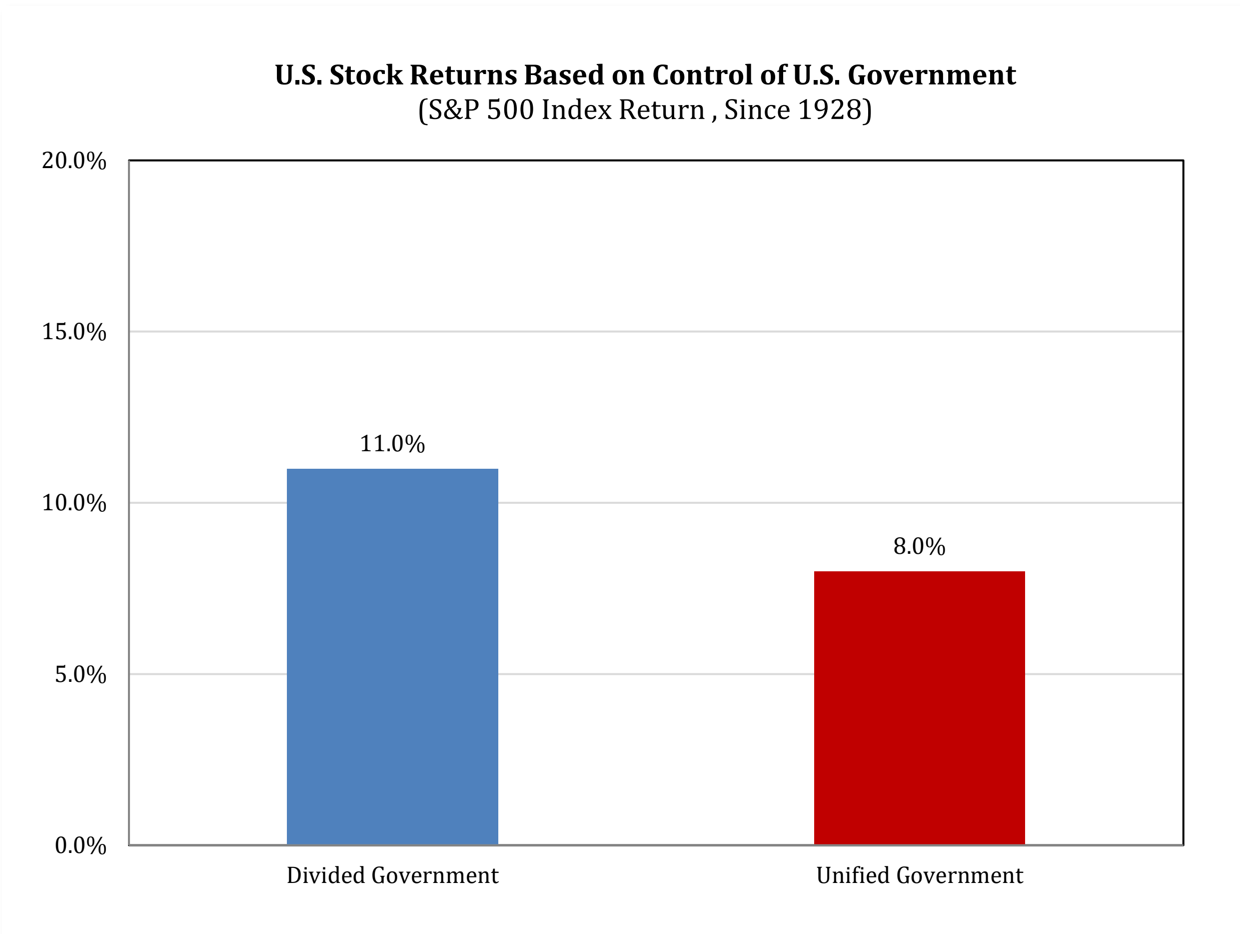
Global asset classes were up across the board in 2019. It was a complete reversal from last year, when almost all major asset classes were down. Within the U.S., technology leaning Growth Stocks outperformed other asset classes fueled by stocks such as Apple which was up +89%. There were many surprises this year, including that Greece was the best performing market in the world even though its economic and political uncertainty persisted.



The 'Important Disclosures' section provides index definitions. Index and stock performance data source is YCharts. Indices are inclusive of reinvested dividends, unless indicated otherwise, and asset classes reflect the indices in parentheses: U.S. Large Stocks (S&P 500), S&P 500 Stock Index (S&P 500 price index, no dividends), U.S. Value Stocks (Russell 3000 Value), U.S. Growth Stocks (Russell 3000 Growth), U.S. Small Stocks (Russell 2000), Intl Developed Large Stocks (MSCI EAFE International Developed), Intl Developed Small Stocks (MSCI Small Cap EAFE), Emerging Market Stocks (MSCI Emerging Markets), Dividend Stocks (S&P 500 Dividend Aristocrats), REITs (Wilshire U.S. REITs), Preferred Stocks (S&P U.S. Preferred Stocks), High Yield Bonds (Barclays High Yield), Floating Rate Bonds (Market Vectors Floating Rate Bonds), U.S. Bonds (Barclays Aggregate Bond), U.S. Corporate Bonds (Barclays Corporate Bond), U.S. Treasuries (Barclays U.S. Treasury).

The Upcoming U.S. Elections

The upcoming election will be a central news topic this year. The impact that any President can have on the economy and market depends on their ability to enact legislation. To be able to put in place more controversial policies, a President's party needs to control both the House and the Senate. The market consensus seems to be that there will be political deadlock, specifically that Democrats will keep the House and that Republicans will keep the Senate. Ironically, though election years tend to be more volatile than average, political deadlock has historically been a positive for market returns. Our base case is that when the dust settles stocks will end higher.



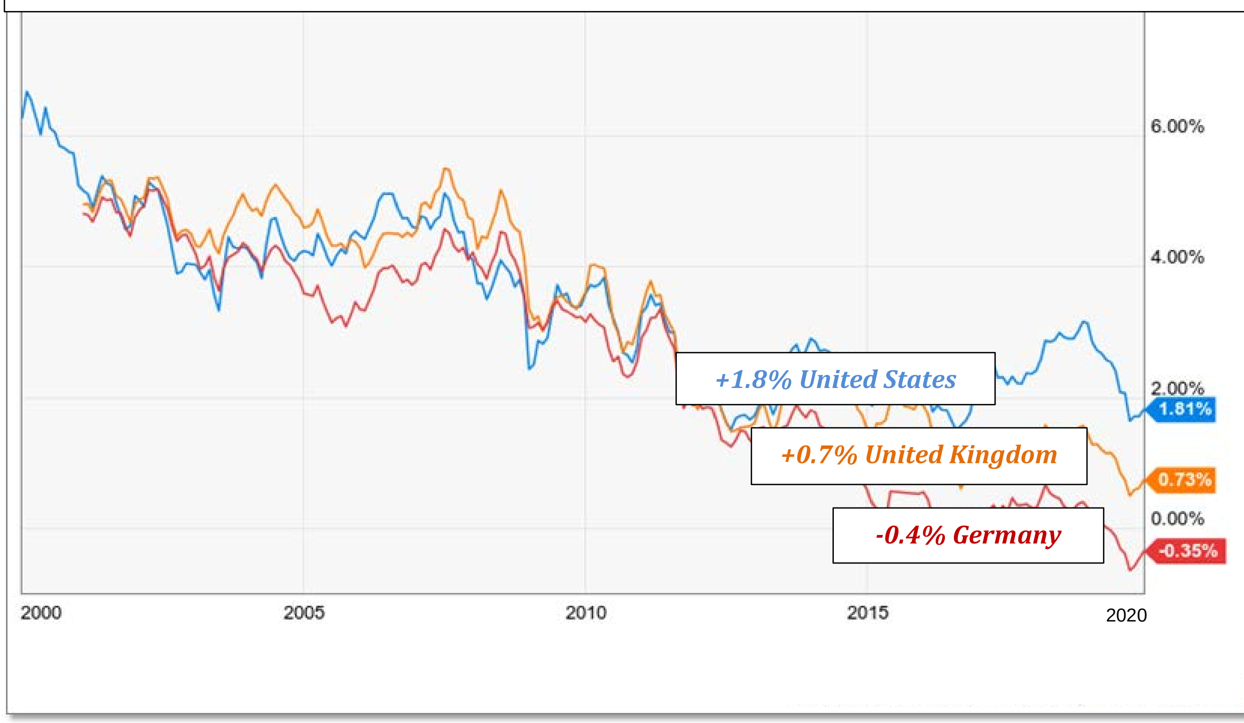
Source: Goldman Sachs Investment Research, 2019.

Record Low Interest Rates

Our perspective is that interest rates will stay low and could possibly go even lower. U.S. rates could stay close to 2-3%, significantly below their 50-year average of about 6%. We believe advances in technology and global competition could lead to structurally lower inflation and tepid wage growth which, by extension, could put a long-term cap on interest rates.

Low interest rates will tempt some investors to increase their stock allocations to seek to achieve competitive overall rates of return. It is hard to see pensions meeting actuarial targets of say for example 7%, with 10-year bond yields hovering well below 2% unless they increase stock holdings, which have greater potential upside due to their long-term earnings potential. This implies investors may need to extend their investment horizon and accept more near-to-intermediate risk.

Long-Term Government Bond Interest Rates
(12/31/1999 -12/31/2019)



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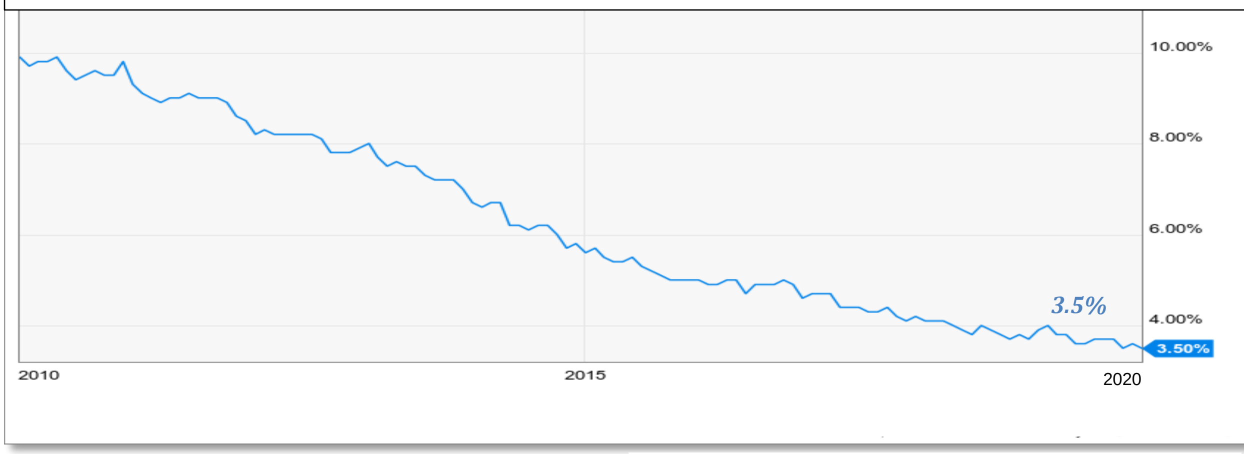
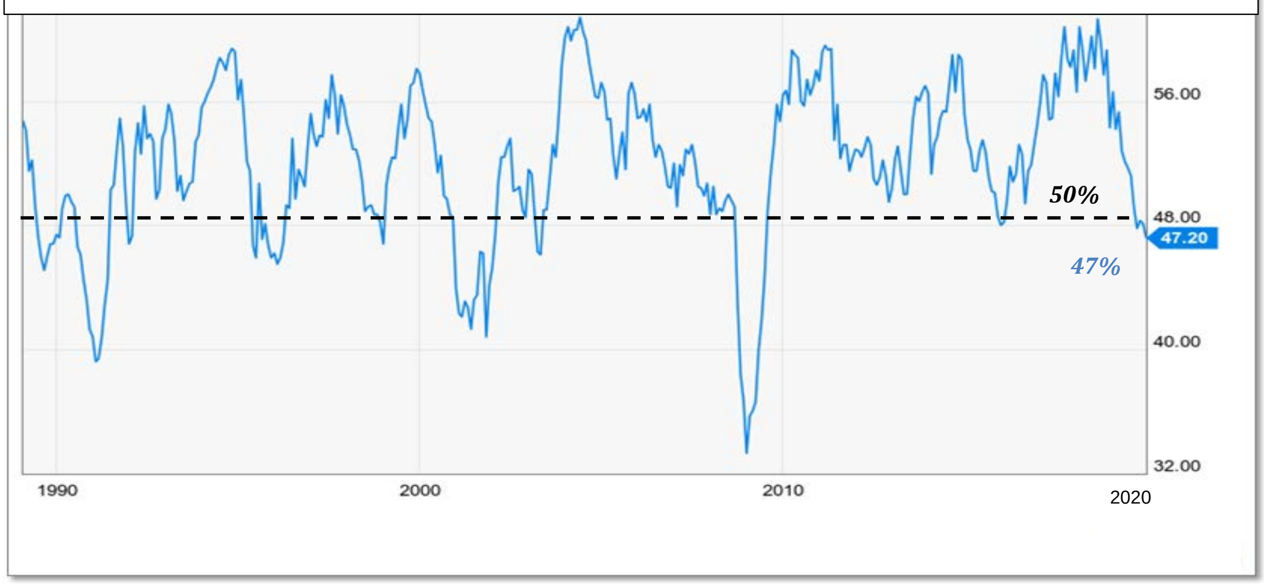
U.S. Economic Growth – Moderating Signals

While we might be in the later stages of the economic cycle, we think the odds of a near-term recession continue to be low. We are monitoring economic and market signals for changes. The economy is currently growing at a respectable +2-3% and unemployment at 3.5% is a record low. On the other hand, purchasing managers have moderated their companies' future purchasing plans. The current PMI (Purchasing Managers Index) reading of 48% implies a slowdown in the anticipated demand for their products, perhaps reflecting trade concerns with China.

United States Unemployment Rate
Last Decade (2010-2019)



Purchasing Managers Index (PMI)
Last Three Decades (1990-2019)

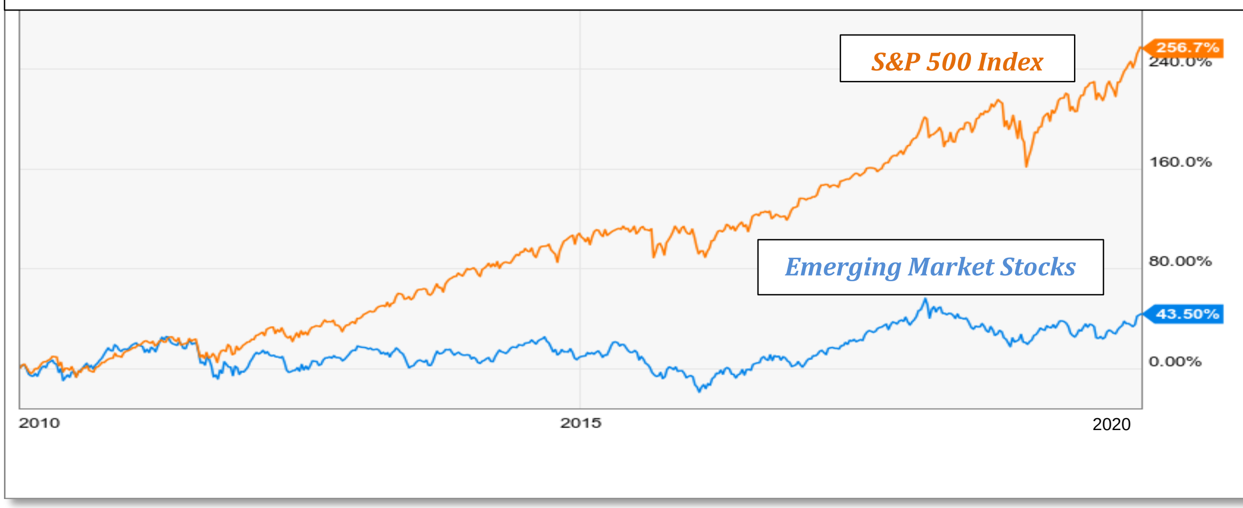


The 'Important Disclosures' section provides index definitions. Data source for both charts is YCharts.

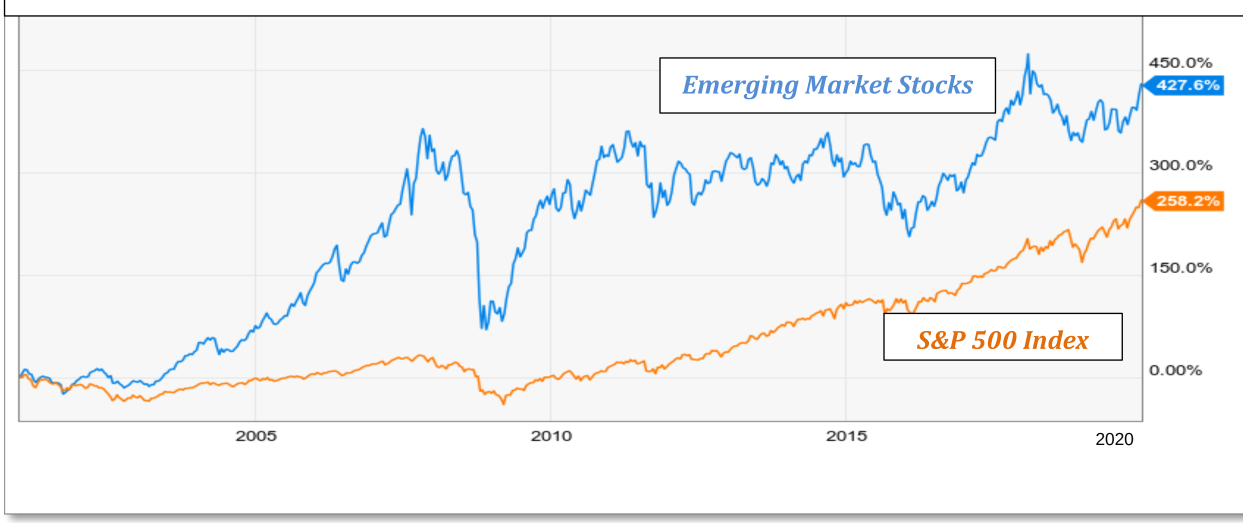
Emerging Markets – Opportunities

Many investors question whether we should maintain and possibly increase, investments in the asset class. The short answer is yes, and we are evaluating options. They have returned 43.5% the past decade (see top graph). Over the same time period the S&P 500 has advanced 256.7%. However, over the long term (see bottom graph) they have delivered higher returns than the S&P 500. We believe they could return to outperformance over the coming years - patience is required.

Emerging Market Stocks vs S&P 500 Index
Last Decade (12/31/2009 – 12/31/2019)



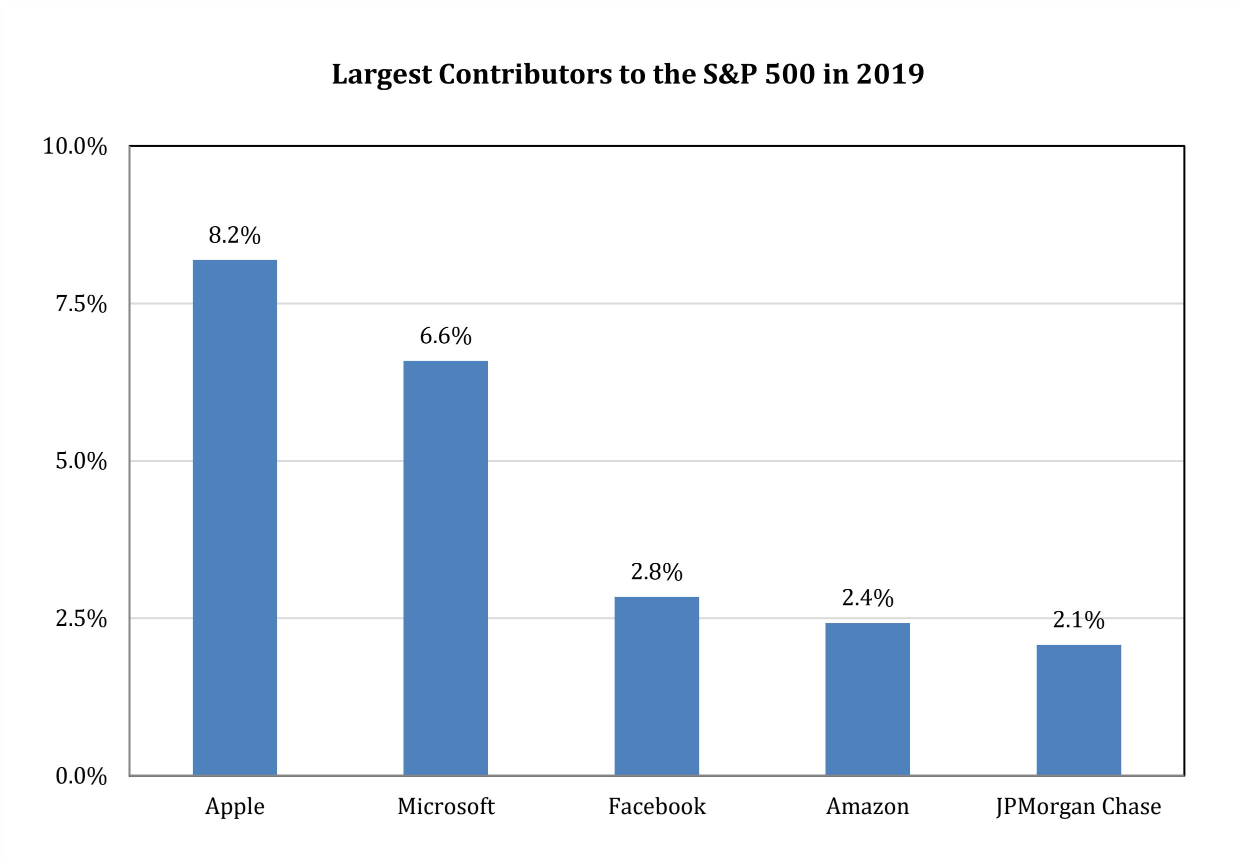
Emerging Market Stocks vs S&P 500 Index
Last Two Decades (12/31/1999 – 12/31/2019)



The 'Important Disclosures' section provides index definitions. Index and stock performance data source is YCharts. Emerging Market Stocks (MSCI Emerging Markets).

Individual Stock Concentration in the S&P 500

While the S&P 500 Index was up +31.2% last year, it is important to note that just five stocks contributed +22.1% to its performance. Concentration can work well on the upside but can be painful on the downside, as was the case during the dotcom bust. It is a source of concern for us is that some ETFs have become increasingly concentrated in a few stocks. We are evaluating ETFs which have a broader stock exposure.

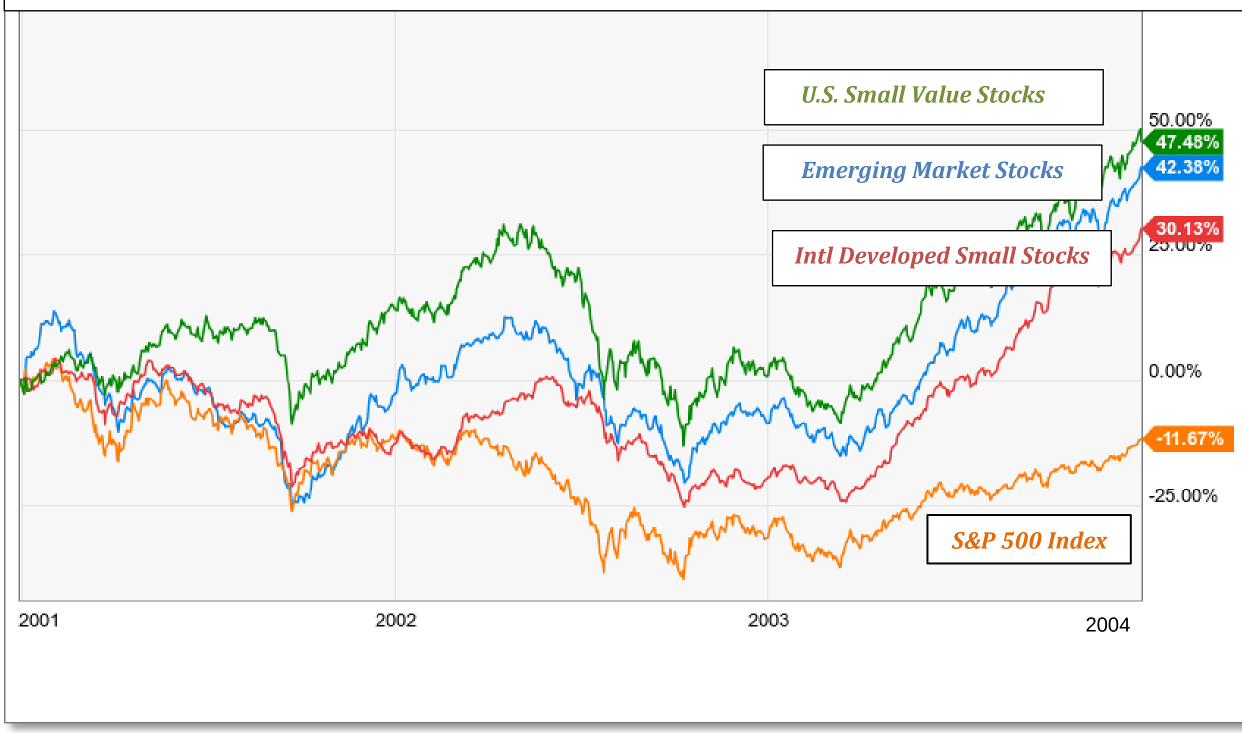


Source: MarketWatch, January 4, 2020.

Diversification and Portfolio Changes

While we think the current environment has the potential to provide opportunities for us to add value, diversification reduces our need to make significant portfolio changes. Diversification is the foundation of our strategy. What makes a broad portfolio so compelling is that it reduces the reliance on a singular asset class to deliver competitive returns and also minimizes the need to call a recession. A good example was the 2000-2002 U.S. recession. While the S&P 500 and Nasdaq Indices experienced significant losses, other asset classes actually advanced.

Asset Class Performance During Dot-com Recession
(12/31/2000 -12/31/2003)



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Important Disclosures

Securities are offered through LPL Financial, member FINRA/SIPC. Investment Advisory Services offered through RSG Advisory a registered Investment Advisor. RSG Advisory and LPL Financial are separate, non-affiliated entities.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. We suggest that you discuss your specific situation with your financial advisor prior to investing.

All indices are unmanaged and may not be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges inherent to investing. All performance referenced is historical and is no guarantee of future results.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

The prices of small cap stocks are generally more volatile than large cap stocks.

The payment of dividends is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Investing in Real Estate Investment Trusts (REITs) involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

Technical analysis is based on the study of historical price movements and past trend patterns. There is no assurance that these movements or trends can or will be duplicated in the near future.

Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

All investing involves risk including loss of principal. No strategy assures success or protects against loss.

Index definitions and terms:

S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

Russell 3000 Index is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities.

Russell 3000 Value Index is a market-capitalization weighted equity index maintained by the Russell Investment Group and based on the Russell 3000 Index, which measures how U.S. stocks in the equity value segment perform. Included in the Russell 3000 Value Index are stocks from the Russell 3000 Index with lower price-to-book ratios and lower expected growth rates.

Russell 3000 Growth Index is a market capitalization weighted index based on the Russell 3000 index. The Russell 3000 Growth Index includes companies that display signs of above average growth. The index is used to provide a gauge of the performance of growth stocks.

Russell 2000 Index is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index. The index serves as a benchmark for U.S. small-cap stocks.

MSCI EAFE Index is a stock index that is a performance benchmark for the major international equity markets as represented by 21 major MSCI indices from Europe, Australia and Middle East.

MSCI EAFE Small Cap Index is an equity index which captures small cap representation across Developed Markets as represented by MSCI indices from Europe, Australia and the Middle East.

MSCI Emerging Markets Index consists of 23 economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the UAE.

Dividend Aristocrats Index are S&P 500 index constituents that have increased their dividend payouts for 25 consecutive years or more.

Wilshire REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the U.S.

Goldman Sachs Crude Oil Total Return Index reflects available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract plus the Treasury Bill rate of interest that could be earned on funds committed to the trading of the underlying contracts.

Bank of America Merrill Lynch U.S. Corporate AAA Index is an index of U.S. AAA corporate bonds. Similarly, the Bank of America Merrill Lynch U.S. Corporate BBB Index includes U.S. BBB corporate bonds

S&P U.S. Preferred Stock Index is designed to serve the investment community's need for an investable benchmark representing the U.S. preferred stock market. Preferred stocks provide investors with a dividend, but do not offer equity in shares.

Bloomberg High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. High Yield bonds are considered low quality bonds.

Market Vectors Floating Rate Bond Index This index provides exposure to the floating rate segment of the U.S. investment grade bond market. Floating rate notes are bonds that have coupon payments that change based on various market characteristics- including rises and falls in interest rates. Holdings are chosen based on amount of debt issued.

Barclays US Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented.

Barclays Corporate Bond measures the performance of the investment grade U.S. corporate bond market. Securities must be fixed rate, U.S. dollar denominated, taxable and rated investment grade as defined by the Index methodology. Inclusion is based on currency of issue, not its domicile.

Barclays US Treasury Index is a market-capitalization weighted index that measures the performance of public obligations of the U.S. Treasury that have a maturity of one year or more.
Citigroup USBIG Treasury Bill 3M index “T-bill” is an unmanaged index representing monthly return equivalents of yield averages of the last 3-month Treasury Bill issues.

CBOE Volatility Index® (VIX®) is meant to be forward looking, showing the market's expectation of 30-day volatility in either direction, and is considered by many to be a barometer of investor sentiment and market volatility, commonly referred to as “Investor Fear Gauge”.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country’s borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.