FINANCIAL MARKET SNAPSHOT

Historic Return Swing Not An "All-Clear"

February 4, 2019

We believe the historic market swings evidenced from December through January are typical activities for a market that may be unsettled under the surface.

We do not believe January's results are an "all-clear" for investors to jump back in with both feet.

Following the worst December since 1931 (down 9.03%), the S&P 500 Index roared back in January, posting an 8.01% gain. How good was January's return? It was the best January for the S&P 500 Index since 1987; 32 years ago. The cumulative performance, however, probably provided more questions than answers, as January's relief may not be enough to sustainably offset the perhaps lingering December worry...although participants seem free of worry at the moment. Fed Chair Jerome Powell has indeed given investors some reason to be more enthused. His mixed monetary policy messaging was likely a key cause for year-end equity tumult, and his policy landing-place has been a trigger for the latest rally. First, Powell painted a picture of a steadfast, somewhat hawkish Fed; then he changed course. Powell walked back previous indications that monetary policy could get more restrictive, and his comments in January were comparatively dovish...so much so that some market participants started talking of an interest rate cut sometime this year. While the Fed policy about-face help re-inflate stock prices last month, the underlying message from the Fed, we believe, is one of economic caution.

Table 1: Global Equity Market Returns - October '18 through January '19
Source: Bloomberg

	Oct '18	Nov '18	Dec '18	Jan '19
S&P 500 Index	-6.84%	2.04%	-9.03%	8.01%
MSCI EAFE Index	-7.95%	-0.09%	-4.83%	6.61%
MSCI Emerging Markets Index	-8.70%	4.13%	-2.81%	8.76%

Simply stated, a market that swings from historic levels of negative return and then back again is not a market in which we find a whole lot of comfort. What the price action should tell you is that investing visibility is perhaps more uncertain than normal. In such an environment, we caution against taking too-much portfolio risk despite what may appear to be an "all-clear" January performance. In fact, from a technical perspective, as far as the equity market was "oversold" in December, we submit that it may be equally "overbought" today….meaning we would look for some profit-taking and an equity drawdown just around the corner. At the end of the day, neither December's swoon or January's rally dissuades us from our cautious portfolio positioning. That is, we were watchful as we approached

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last year's fourth quarter and we are equally as diligent now. This approach is reflective of our current asset allocation strategy; one that favors equities, but only slightly. And more importantly, one that is dynamically constructed to adjust exposures as market conditions change.

Managing Volatility

While January's rally has been a bright spot, unfortunately, we are not expecting a return to the smooth market environment we witnessed in 2017. Fourth quarter activity, perhaps was he first real indication of that. January's market has indeed helped clean up some of the Q4 mess, but the technical equity price trend is still under considerable distress. At HB Retirement, we not only pay attention to fundamentals (which we have indicated are somewhat suspect at the moment), but we also consider prices trend in our analysis. This dual focus is designed to participate in favorably trending markets, or draw down equity exposure and add to cash when the trend is less accommodative.

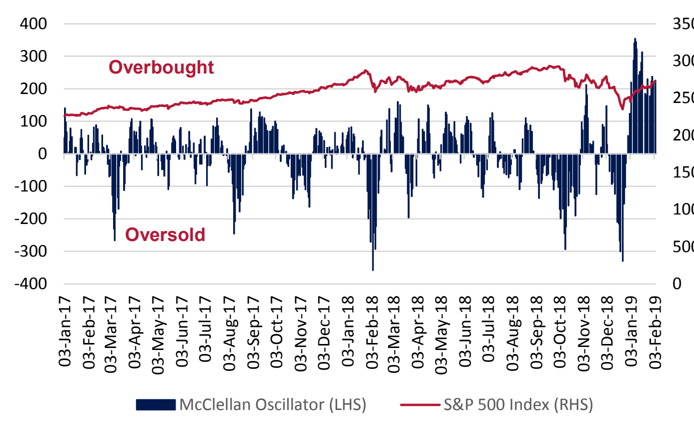
Given the still-unsteady price trend, we are incorporating a material amount of cash in our asset allocation today and have added back to the equity market modestly as January's activity has repaired only some of the fourth quarter's debilitating trading activity. If the trend continues to sustainably improve we will put more cash back to work in our tactical portfolios. This "trend-following" approach is not a market timing tool, but a strategy that we believe combines common sense and the use of return probabilities in sensible portfolio construction.

The McClellan Oscillator is a market breadth indicator that is based on the number of advancing and declining issues on the New York Stock Exchange. The indicator may be used by some to measure extremes in market conditions.

We do not use the McClellan Oscillator to make asset allocation decisions but we use the indicator to help inform us as to whether this market may be "overbought" or "oversold", and to what degree, based on the zero-line of the indicator.

We believe following such indicators can help assess underlying conditions in the market that are not apparent just from viewing price.

Figure 1: S&P 500 Index and the McClellan Oscillator
Source: Bloomberg;



Our base-case analysis today states that while January's performance can produce some investment optimism, our read of market conditions indicates we are not out of the woods technically or fundamentally. More bouts of Q4-like volatility may be on the horizon. Our work suggests investors should be more cautious about this market and ensure their allocations represent that view.

Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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All opinions and views mentioned in this report constitute our judgments as of the date of writing and are subject to change at any time. We will not advise you as to any change in figures or views found in this report.

Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

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

Stock investing involves risk including loss of principle.

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.

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.

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.

The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

The 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 the major sectors of the U.S. economy.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

Economic and other investment forecasts set forth may not develop as predicted and there can be no guarantee that strategies mentioned will be successful.

All indices are unmanaged and may not be invested into directly.

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