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October 09, 2019

Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call us at your convenience to set up your quarterly investment meeting.

Contents:

Going, Sebastien, Fisher & Le Bouef, LLP News:

GSF&L constantly researches asset classes that may be suitable for clients' portfolios to add diversification (reduce risk). We offer Insurance-Linked Securities, Alternative Lending, Market Insurance, and other Alternative Strategy Securities, so feel free to contact us for more details. Two new funds were added to the portfolio this year: Versus Capital Real Estate and Versus Capital Real Assets. Both asset classes have a history of low to moderate correlation to a Global Equities/Global Fixed Income mix; therefore, adding diversification to portfolios.

- Please make note of the above letterhead indicating our other office located in Lafayette. We have been operating in Lafayette since early 2017. Should you wish to meet or come visit us there please do not hesitate to do so.

Investment Views:

- ***Morningstar Data - Through September 30, 2019 - Year-to-date returns –*** Dow Jones Industrial Average 17.51%, NASDAQ Composite 19.66%, Russell 2000 14.18%, S&P 500 19.94%, Barclays US Aggregate Bond 8.52%, and Morgan Stanley Capital International Europe, Australasia, Far East 13.18%.

- **American Institute for Economic Research Rates of Interest (As of September 25, 2019 – Average National Rates) –**

Federal Funds Rate	1.90%	10-Year TIPS	0.11%
3-Month Treasury Bill	1.90%	10-Year Muni Bonds – Nat'l	1.40%
10-Year Treasury Note	1.72%	15-Year Mortgage Fixed	3.21%
30-Year Treasury Bond	2.16%	30-Year Mortgage Fixed	3.73%

- ***Northern Trust – Weekly Economic Commentary – October 4, 2019 –*** In fiscal year 2019 (which ended on September 30), the U.S. government ran a deficit of over 1 trillion dollars. It is unusual to see the imbalance grow during a period of steady growth. The main reason for this outcome is that the tax reform of 2017 has not lived up to the expectations of its sponsors. That bill provided most individuals with a small tax reduction, which helped to sustain consumer spending throughout 2018. The tailwind to consumption seems to have worn off. The same is true for business investment. We did witness a surge in business investment in the first half of 2018, but results since have been disappointing.
- ***Bureau of Economic Analysis – September 26, 2019 -*** Real Gross Domestic Product (GDP) – the value of goods and services produced by the nation's economy less the value of the goods and services used up in production increased at an annual rate of 2.0% in the second quarter of 2019, according to the "third" estimate released by the Bureau. In the first quarter 2019, real GDP increased 3.1%. Personal income increased 0.4% in August, which compares to 0.1% in July. Wages and salaries, the largest component of personal income, increased 0.6% in August after increasing 0.2% in July.
- ***Bureau of Labor Statistics – September 12, 2019 –*** On a seasonally adjusted basis, the Consumer Price Index for All Urban Consumers increased 0.1% in August after rising 0.3% in July. Over the past 12 months the all items index rose 1.7% before seasonal adjustment. The unemployment rate declined to 3.5% in September, and the number of unemployed nonfarm persons increased by 136,000. Notable job gains occurred in professional and business services, health care, and government.

Craig's Thoughts and Views:

Asset Forecasts

Since January 2010, the stock market as measured by the S&P 500 Index has returned about 13.08% annualized including dividends. Obviously, the start of this decade has been very good and for many expectations may be high going forward. However, a look at the past and a look into the future (by a couple of respected Wall Street firms) should be considered.

A look at the past 20 years, as measured by the S&P 500 shows two different stories. As stated above, the S&P 500 returned 13.08% annualized including dividends from January 2010 – June 2019. However, the "lost decade," as it is commonly known, resulted in disappointing returns for many who were invested in securities in the S&P 500. For that decade, January 2000 – December 2009, the S&P 500 Index returned on average -0.95% annually. An index that had averaged more than 10% annualized returns before 2000 and after 2009 instead delivered less-than-average returns from the start of the decade to the end.

To look at the total average returns from a combined span, January 2000 – June 2019, the S&P 500 Index returned on average 5.65% including dividends. Some asset classes haven't kept pace with the S&P 500 index since January 2010 that include large cap value, small cap, international, and emerging markets, and some investors may be questioning their allocation to these assets classes. However, during the period January 2000 – December 2009, some indexes : U.S. large cap value, U.S. small cap, international value, international small cap value, and emerging markets did outperform the S&P 500 index.

Two firms that have called past market downturns are GMO, LLC and John Hussman of Hussman Investment Trust. That is not to say they have been right throughout their firm history and they called the market tops to the exact day or month, but they did give notice to investors before the 2001-2002 and 2007-2009 collapses. GMO's latest (August 2019) 7-year asset class real return forecasts has the following: U.S. large cap -3.3%, U.S. small cap -1.0%, international large cap 0.8%, international small cap 2.5%, emerging value 10.1%, U.S. bonds -2.6%, international hedged bonds -4.3%, and U.S. inflation linked bonds -2.0%.

John Hussman, Hussman Investment Trust, writes in his September 2019 Market Commentary "Going Nowhere in an Interesting Way" that the prospect of a 10-12 year period of zero or negative returns for the S&P 500 would be consistent with prior market valuations.

No one knows what the next 10 months will bring, much less the next 10 years. However, maintaining patience and discipline using a diversified approach, through the bad times and the good, puts investors in position to increase the likelihood of long-term success. In addition, understanding what loss is acceptable to you is important if you are not a long term investor or if you are a strict buy and hold (passive) investor.

Inverted Yield Curve

Much attention has been given to the yield curve, which has recently "inverted," and what predictive value it has for the economy and the stock market. What is the U.S. yield curve? The U.S. yield curve plots current interest rates for fixed income securities ranging from one month to 30 years. Normally, the curve is upward sloping, indicating a positive relationship between rates and bond maturities meaning long term bonds provide higher yields than short term bonds. Long term bonds typically offer higher interest rates because the purchaser of the bond has his capital locked up for a longer period of time, therefore bears greater term risk. Practically speaking, a long-term bond investor should be rewarded for assuming this risk.

The higher interest rate for long-term bonds also suggests that investors expect stronger economic growth in the future. Historically, when the yield curve has flattened investors expect inflation and interest rates to stay low for an extended period of time, signaling economic weakness. On occasion, yield curves do invert, so that short term rates offer higher interest rates than long term rates. Inverted yield curves have preceded the last seven recessions, and some studies have shown it may be a reliable predictor of economic activity.

However, some analysts believe the yield curve may no longer be a reliable indicator due to the Federal Reserve's unprecedented balance sheet of Treasury securities holdings. In addition, there is was about $16.56 trillion of negative yielding debt worldwide (Bianco Research, Bloomberg, August 26, 2019). The impact on foreigners buying U.S Treasuries for a positive yield must also be considered in considering the flattening and inverting of the yield curve.

In the past, the inversion of the yield curve has caused some if not many investors to predict low stock market returns thereby reducing equity exposure. Recent research by Fama French in July 2019 studied yield curves in the U.S. and in developing countries spanning capital market data from 1975 to 2018. The research found no evidence that yield curve inversions can help investors avoid poor stock market returns. The researchers observed that yield curves do not forecast equity premiums.

GSF&L, LLP Registered Investment Advisors:

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one's financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

Craig

Craig C. Le Bouef, MBA, CPA/PFS, CFP®

NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results. Diversification does not assure against market loss.