



INVESTMENT COUNSEL
INSPIRE TRUST. INVEST WELL.

December 31, 2018

Dear Valued Client,

As 2018 comes to a close, we'd like to reach out to you and offer encouragement for 2019. As much as we'd prefer the markets to act in an orderly, rational manner; they sometimes veer off course for a short time without a solid explanation.

The positive economic and business environment which was experienced throughout the year did not translate into higher equity returns for 2018.

There are many theories to explain the weakness. In fact, there may be too many theories; and certainly, there is too much negativity in the news coming from Washington. The one bit of solid evidence helping explain the market weakness has been extremely low investor confidence.

While 2019 prospects may not be as strong as 2018, they remain good. The expectations of most serious market analysts and strategists is for GDP growth of 2.0% - 2.5% (down from 3% in 2018) and earnings growth of roughly 5% to 10% (down from approximately 12% excluding the 2018 tax cut). Given the substantial decline in PE multiples driven by weak investor confidence, valuation risk is much lower.

As long-term investors, we are encouraged by the near-term opportunity to buy equities at very attractive prices in a fundamentally attractive environment. As experienced practitioners, we have all been through weak markets over the decades; and were all together as a team during the financial crisis of 2008-2009. Today's environment is nothing like 2008.

Our equity strategy for clients is to assure that portfolios have sufficient liquidity available to meet 12-24 months of cash needs; but to remain invested in equities as prices appear to significantly undervalue the actual business opportunities available.

We encourage you to remain confident in the future prospect for US businesses. We expect that equity markets will find their way back towards the underlying fundamentals, and they will meet at much higher price levels than today's distressed levels.

We thank you for your trust in our expertise; and we wish you the very best in 2019.

Jon Kmett
President