BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

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FINANCIAL MARKET OVERVIEW

The U.S. stock market burst into the new year with an unexpected 13% advance during the first quarter. This advance followed the sudden fourth quarter 2018 decline of 13% in stock values and last year's decline has been completely erased during the first three months of 2019. The substantial decline in the U.S. stock market during October and December 2018 resulted in the worst annual stock market decline since 2008. Three months later, the stock market advanced over 13% - the best three-month performance since September 2009.

The same stocks--Amazon, Netflix, Facebook, Google, Apple and other 'tech' stocks-- that declined significantly during the last three months of 2018 became the best performing sector during the first three months of 2019.

Last year, energy stocks dropped more than 20% after the price per barrel of oil dropped from over $70 per barrel on October 1, 2018 to under $50 per barrel by year-end. Similar to tech stocks, energy stocks reversed course and jumped 15% during the first 3 months of 2019.

Growth stocks continued to outperform value stocks during the first quarter of 2019. Large-company growth stocks jumped over 15% during the first quarter however, mid-size and small-company U.S. growth stocks were up 19.5% and 17.24% respectively.

Real estate (REIT's) performance was another example of a reversal from 2018. Real estate stocks dropped 6% in 2018 and then rebounded significantly during the first 3 months of 2019 – up over 15% in just three months. International and emerging market stocks (developing economy stock indexes) had the worst performance last year – down 14%-16% but rebounded in 2019 with 10% gains during the first 3 months of 2019.

Gold prices surged 7.5% during the fourth quarter of 2018 as stocks declined and the fear factor increased, but gold was up only 0.75% during the first quarter of 2019.

Fixed income or bond prices recovered nicely during the first quarter because interest rates declined. This is counter intuitive – when interest rates decline, *bond prices or values* increase. Short-term Treasury bond returns ended the first quarter with a 0.97% gain and intermediate-term Treasury bonds posted a 2.78% gain.

The 10-year U.S Treasury Note paid 3.23% in November 2018 and trended down over 2018, ending at 2.68%. Subsequently, in the following three months (first quarter of 2019), the interest or yield dropped again down to 2.4%.

The chart on the following page displays sample returns of various asset categories during the first quarter of 2019 and year-to-date:

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Calendar Yr. 2019	1st Qtr. 2019	Index Return (***includes dividends reinvested***)
+ 11.15%	+ 11.15%	**Dow Jones Industrial Average (^DJI)**
+ 13.53%	+ 13.53%	**Standard & Poor's 500 Index (^GSPC)**
+ 14.00%	+ 14.00%	**DJ U.S. Total Stock Market (VTI)**
+ 15.95%	+ 15.95%	**Large-company stock-Growth (IWF)**
+ 11.80%	+ 11.80%	**Large-company stock-Value (IWD)**
+ 19.52%	+ 19.52%	**Mid-Size Stocks – Growth (IWP)**
+ 14.27%	+ 14.27%	**Mid-Size Stocks – Value (IWS)**
+ 17.24%	+ 17.24%	**Small-company stock- Growth (IWO)**
+ 11.97%	+ 11.97%	**Small-company stock- Value (IWN)**
+ 10.34%	+ 10.34%	**International (EFA)**
+ 9.88%	+ 9.88%	**Emerging Markets (EEM)**
+ 17.38%	+ 17.38%	**Real Estate Investment Trusts (VNQ)**
		Fixed Income
+ 0.97%	+ 0.97%	**Short-term U.S. Treasury (SHY)** *(includes appreciation)*
+ 2.78%	+ 2.78%	**Intermediate U.S. Treasury (IEF)** *(includes appreciation)*
		Alternative Investment Category
+ 0.78%	+ 0.78%	**Gold (GLD)**

**All returns calculated using adjusted historical quotes from finance.yahoo.com*

FINANCIAL MARKET OUTLOOK

Investors are confused and full of disbelief. How can stocks drop over 13% in the previous quarter and suddenly advance over 13% during the following quarter? What changed? Aside from a small decline in interest rates and the Federal Reserve suggesting that planned interest rate increases for 2019 (two additional rate hikes were expected) are now "on hold", nothing else except for the fear factor level (coming mainly from politics) dissipating, can explain the reversal. The selloff in late 2018 was not based on economics and thus the downward spike didn't last very long. The U.S. economy continues to be a *relatively* bright spot around the world.

Below is a brief discussion of the possible negatives or concerns compared to the positive outlook. Consumer spending was down fractionally for 2 months in a row - January thru February. The concern is perhaps the U.S. economy is slowing down and if consumers are spending less, then corporate earnings may soon start fading. Slowing global growth and a real Brexit mess in Europe adds uncertainty. Europe's manufacturing sector is on the decline as the German manufacturing index dropped to its lowest level in nearly seven years. China's stock market dropped twice as much as American stocks last year and economic growth is about half of what it was two years ago (but still twice the GDP rate as the U.S.).

First, trade and tariff negotiations appear to be making progress, but that appearance could dissipate quickly. A U.S.-China trade agreement has the biggest potential to cheer the financial markets and set a continued positive tone. Some sort of trade deal will be reached and that outcome is good news by itself regardless of who appears to win. Removing this uncertainty is far more important for continued expectations of economic growth and rising stock markets than the actual deal itself.

Second, interest rate hikes are "on hold" – good news. Third, U.S. economic growth is projected to be 2.5% to 3% in 2019. Economic growth (GDP) somewhere around the 3% long-term average is considered ideal – not too fast (which causes interest rate increases) and not too slow which would suggest a slowing economy. Our GDP growth rate is within the acceptable range yet some financial news publications, internet postings, and television news programs seem to enjoy discussing what could possibly go wrong – I suppose fear sells.

Ultimately investors and investment managers will choose which forecast or scenario they believe is likely and manage their assets accordingly. Some will let political identity overly influence their outlook. In any case, making investment decisions to alter your investment portfolio allocation or making buy and sell changes should be limited to incidents when the probability of occurrence of any scenario is based on factual analysis and the when the probability of occurrence is greater than 50%. Most of the short-term volatility in financial markets and continuous "news" stories focusing on what could go wrong should be ignored.

Since the beginning of the U.S. stock market advance in January 2017 through the first quarter of 2019 (2.25 years), stocks were up 20% in 2017, down 5% in 2018 and up 13% during the first quarter 2019, that's about a 12% compound annual

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return or an average of 12%. Given the improvement in economic growth from less than 1% average annual growth rate prior to 2017 to the current 2.5%-3% growth rate, moderate income tax rates, and low interest rates, the current overall stock market is still fairly or reasonably valued. Assuming the path we are currently on has a greater than 50% probability of staying in place, the overall stock market should continue to advance.

INVESTMENT OUTLOOK AND RECOMMENDATIONS

Once again, our outlook for the financial markets and specifically with regard to continued economic growth and its positive impact on the stock market have not changed. Economic growth worldwide is not evenly distributed and China is probably experiencing the biggest drop of all large-country economies. Europe looks awful. We do not plan to make any significant changes to client portfolios at this time. However, the asset class that we currently have the least or no exposure at all at this time in client portfolios (emerging markets) is likely to experience significant upside performance once a trade deal with China is agreed to (whether significantly different than today or not). Simply removing that uncertainty will be a big positive for the financial markets.

Stock market valuation is much more reasonable now compared to 2017 and earlier. While the economy will not likely grow as fast after the initial spurt in 2018, a 2.5% to 3.5% GDP growth rate is ideal. Estimates today suggest an economic growth rate (GDP) of 2.9% in 2019. We are still in the best economic environment since 2009.

For clients with new investment accounts holding primarily cash, we expect to invest those funds into our recommended stock, bond, and real estate holdings ratably over the next 3-6 months. We will continue purchasing individual bonds (rather than bond mutual funds) and short-term certificates of deposits for the fixed income portion of client portfolios.

CANNABIS STOCKS

Yes, a marijuana topic in my newsletter. Several clients have called and the number of inquiries is growing regarding the investment opportunities in this field. Let's start off by differentiating stocks of cannabis companies and other investment ideas that are not real products like Bitcoin. Cannabis companies are the 2018-2020 version of Microsoft Office or cell phones decades ago. They have a product that is now legal in Canada, in a few other countries and now a growing number of states (thirty-three) have legalized one or both medical and recreational uses of marijuana. In addition, there are far more other uses of cannabis products (mainly CBD – a non-psychoactive chemical) other than getting high such as skin creams, pain relief, muscle soreness, glaucoma, reducing irritability and shaking after seizures and many other retail-type products like clothing, hemp, air freshener, perfume and many others. If you want to drop your jaw, just walk in to a retail pot store in Colorado – especially in the malls. You would think you are standing in Neiman Marcus.

Presently, there are a few Canadian companies that are listed on the New York stock exchange (Canopy Growth Corp.) and NASDAQ (Tilray, Cronos and others). However, nearly all other exchange-listed companies are located in Canada and are listed on the Canadian stock exchange. There are a few ETF's or mutual funds as well.

A big wall to climb for U.S. based companies is several states have legalized medical and or recreational use, but the Federal government has not. That's a problem. Only 33 states have legalized marijuana in some form.

So, for now, interested clients can either buy stocks listed on the Canadian exchange, purchase the NYSE and NASDAQ listed companies or wait until more of these companies are listed on the NYSE. The federal government isn't ready to legalize marijuana just yet, but eventually it seems inevitable. We can't have conflicting state and federal government rules forever, and certainly the federal government will step in with rules and

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regulations as the current oversight of cannabis products such as certification of purity, standards for assessing and touting health benefits, etc. is inconsistent. Many foods, oils, topical creams, and other products contain CBD, a non-psychoactive chemical in marijuana that has been effective as a pain reliever, sleep aid and more.

Legal pot sales are expected to hit 13 billion this year and if you add illegal sales, the total figure is estimated to be at least 50 billion. Those kinds of numbers have and will continue to attract big corporations and investors. Altria (tobacco company) has already invested in a Canadian grower. But which angle should you choose? Growers, processors, retail chains, mail order, vending machines, and so many more.

For now, investors will have to wait for the comfort of owning stocks listed on the New York Stock Exchange otherwise taking an unfamiliar journey into the Canadian stock exchange is your primary choice.

ANNOUNCEMENTS

As announced in the previous two newsletters, after nearly 19 years with BDL, Inc. Clint Winey has chosen to begin retirement early! Clint will formally retire and leave the firm at the end of April, 2019. All of us at BDL, Inc. and clients appreciate Clint's expertise as he leaves us with a treasure chest full of memories.

The advisor taking over Clint's responsibilities, Rebecca (Becca) Ludford, joined our firm on March 11th. Becca graduated from the UC Berkeley in 2015 with two B.A. degrees in Economics and Political Economy. Rebecca spent the past four years working as an equity research analyst for Brandes Investment Partners, a local San Diego mutual fund. She grew up in Yorba Linda, CA and is currently studying the level 2 CFA exam. Becca will be "on her own" and without Clint's supervision on April 30th. She is well qualified and making a smooth and quick transition.

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