BRIAN D. LOWDER, INC.

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Financial Market Overview

The second quarter 2019 stock market performance was a repeat of the volatility experienced in December of last year through January 2019. Back then, the stock market slumped considerably in December only to regain the entire decline the following month in January 2019.

During the second quarter 2019, the overall stock market was up about 3% in April, plummeted 6.5% in May, and rose 6.9% in June. The net performance of the U.S total stock market index during the second quarter was approximately 3.5% or about 4% when dividends are included. Year-to-date, stocks are up over 16% (18% with dividends).

Once again, as the overall stock market advanced, technology stocks outperformed the overall stock market. Conversely, energy stocks reversed course from a 12% first quarter return falling to a negative 5% return during the second quarter.

Growth stocks continued to outperform value stocks during the second quarter of 2019. Large-company growth stocks rose 4.25% during the second quarter (in addition to the 15% increase during the first quarter) compared to a 3.5% return for "value" stocks. The same relative superior performance of mid-size and small-company growth stocks compared to value stocks occurred as well.

Real estate (REIT's) performance was another example of volatile short-term performance. REITs were up over 15% during the first quarter, but only gained 1.5% during the second quarter. International and emerging market stocks (smaller-country international stock indexes) continue to trail the U.S. stock market performance. International stocks were up 3.5% and emerging markets rose by less than 1% during the second quarter.

Gold prices surged nearly 10% during the second quarter following flat performance during the first quarter of 2019.

Fixed income or bond **prices** continue to rally. The good news is bond **prices** are up during the past two quarters, but the bad news is prices are up because interest income or yield is dropping. Interest rates actually declined again - for two consecutive quarters. When interest rates decline, *bond prices or values* increase. Short-term Treasury bond returns ended the second quarter with a 1.28% gain and intermediate-term Treasury bonds posted a 3.76% gain.

The 10-year U.S Treasury Note paid 3.76% interest at the end of 2018. Today (six months later), the interest paid on 10-year maturity Treasuries has plummeted below 2%. Amazingly, the interest or yield paid today for a 30-year maturity Treasury is only 2.53%. Investors are asking themselves; "who would lock in a 2.5% income return for 30 years!".

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

Year-To-Date 2019	**2nd Qtr. 2019**	**Index Return (*includes dividends reinvested*)**
+ 14.03%	**+ 2.59%**	**Dow Jones Industrial Average (^DJI)**
+ 18.33%	**+ 4.23%**	**Standard & Poor's 500 Index (^GSPC)**
+ 18.68%	**+ 4.11%**	**DJ U.S. Total Stock Market (VTI)**
+ 20.87%	**+ 4.25%**	**Large-company stock-Growth (IWF)**
+ 15.82%	**+ 3.60%**	**Large-company stock-Value (IWD)**
+ 25.82%	**+ 5.27%**	**Mid-Size Stocks – Growth (IWP)**
+ 17.85%	**+ 3.12%**	**Mid-Size Stocks – Value (IWS)**
+ 19.95%	**+ 2.31%**	**Small-company stock- Growth (IWO)**
+ 13.09%	**+ 1.00%**	**Small-company stock- Value (IWN)**
+ 14.23%	**+ 3.53%**	**International (EFA)**
+ 10.71%	**+ 0.73%**	**Emerging Markets (EEM)**
+ 19.17%	**+ 1.53%**	**Real Estate Investment Trust (VNQ)**
		Fixed Income *(includes appreciation)*
+ 2.26%	**+ 1.28%**	**Short-term U.S. Treasury (SHY)**
+ 6.65%	**+ 3.76%**	**Intermediate U.S. Treasury (IEF)**
		Alternative Investment Category
+ 9.86%	**+ 9.17%**	**Gold (GLD)**

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

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Financial Market Outlook

Investors are still skittish as it has become increasingly difficult to ignore the recent stock market volatility. Investors have experienced significant stock price declines in October and December 2018 and again in April 2019. In each case, the overall stock market recovered in the following month. Overall stock prices are up 18% in 2019, but up just over 9% since June 2018 – still a respectable 12-month return compared to fixed income.

Because politics have become so divisive currently, it's hard for investors to ignore this subject or at least prevent their opinions from overly influencing their investment decisions. From North Korea to tariff negotiations with China and ugly politics and personalities in between, it's very hard to fight off an association between politics and investment decisions. The potential for negative scenarios never seems to stay in the background.

One significant milestone is hardly covered in the press – the economy just set a record: the longest expansion …... EVER on July 1, 2019 – 10 years with no recession. Granted economic growth was near 0%-1% range for many of those years since 2008, nonetheless a slow expansion is actually favorable.

Bottom line, two "more likely-than-not" events will provide confidence for continued positive investment performance. The first is interest rates. Will the Federal Reserve actually lower interest after increasing them several times each year in 2017-2018? Very likely. The bond market has already reacted and adjusted – as discussed earlier in this newsletter, interest rates on a 10-year Treasury Bond are slightly under 2% and only 2.53% interest paid on a 30-year maturity Treasury Bond. Slow-to-average economic growth and low interest rates are a dream combination.

Second, a lot is riding on the outcome of the U.S.- China trade talks. Any agreement, whether substantially different or not, would give both countries' economies a shot in the arm and cheer the stock markets. Getting rid of uncertainty and what may happen is better than the actual agreement itself, and it seems more likely than not that an agreement will be reached. However, if a breakdown in talks occurs and our President follows through with the 25% tariff or duties on everything China exports to the U.S., the outcome would cause a hard hit to both countries' financial markets.

Our expectation is U.S. economy will be a bit slower than 2018 – perhaps around a 2% GDP growth or so. Tax reform changes provided a boost to economic activity for both individuals and corporations in 2018 and will not be repeated in 2019. Further, with interest rates near 65-year low, fixed income investments are extremely unattractive around the world, thus making stocks more attractive – especially when many stocks offer a dividend yield that is higher than certificates of deposit or Treasury bonds. In Europe, several countries are issuing 100-year maturity government bonds at rates below 2%!

Investment Outlook and Recommendations

Again, our outlook with regard to continued economic growth and its positive impact on the stock market have not changed. Some economists and advisers believe economic growth (GDP) is slowing in the second and third quarters by a marginal amount – from 3% to 2% while others see 2.9% to 3.5% economic growth. Economic growth between 2% and 3.5% is ideal.

Perhaps we are slowing somewhat as the Federal Reserve is hinting that interest rates may be lowered. The financial markets have already reacted to this news as interest offered on six-month certificates of deposit have dropped from 2.5% to 2% over the past 6 months and the 10-year U.S Treasury Notes today only offer less than 2% interest compared to 3.5% at the end of 2018. With interest rates so low, the stock market is even more attractive than it was 6 months ago.

We do not plan to make any significant changes to client portfolios at this time. As uncomfortable as it may seem, stock values are much more reasonable now compared to one year ago and while the economy will not likely grow as fast after the initial spurt in 2018, we are in the best economic environment since 2009.

The biggest dilemma is what to do with maturing certificate of deposits in client portfolios. Very few clients are invested 100% in stocks and real estate. The portion of client accounts NOT invested in stocks must stay in fixed income to maintain balance and not exceed clients' risk tolerance. For the near-term, as certificates of deposit mature, we will invest the funds temporally invest in money market funds paying 2% until suitable alternatives are identified.

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 6 months. We will continue purchasing individual bonds (rather than bond mutual funds), money market funds and short-term certificates of deposits for the fixed income portion of client portfolios.

We expect the stock market to provide reasonable performance over the balance of the year with potential upward spikes if and when trade agreements are settled with China and other countries. We will continue implementing our Buy recommendations periodically as we have in the past. We view the probability of a rising stock market ***1-2 years from now*** as being higher than the probability of lower stock market valuations. The path toward that expectation is not always smooth and our current volatile stock market reaction to tariffs and whatever else may arise is normal.

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SUSTAINABLE INVESTING

A small but growing number of clients are inquiring about ESG investing. At the same time, several government agencies such as California's Calpers (California Public Employees Retirement Systems) and the Norwegian Parliament are insisting that their pool of retirement assets be managed and invested in a sustainable fashion. ESG is commonly referred to as "sustainable investing".

To begin understanding this relatively new and increasingly advertised investment approach, a good place to start is with the first-generation of a values-based investment approach; *Socially Responsible Funds* or *SRI.* You might recall socially responsible investing excludes buying companies that are considered harmful. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling, and tobacco) and seeking out companies engaged in social justice, environmental sustainability, and alternative energy/clean technology efforts.

ESG investing takes this initial approach deeper. Simply stated, ESG investors will only invest in a company that is addressing (taking steps to minimize) and not worsening environmental, social and good governance (business practices) – in other words "good corporate citizens".

The biggest problem is defining or creating a standardized list of companies that fit the ESG label. Since there isn't an agreed upon standard, many sustainable investments funds are now grading companies on a scale rather than rather being labeled IN or OUT. For example, one ESG investment fund specifically excludes oil companies from purchase consideration because of the environmental impact of extracting and producing oil as well as the impact on the planet and global climate change due to auto emissions. Yet, another ESG marketed investment fund does purchase some oil companies if the oil company discloses their plans to comply with the Paris climate accord targets and are taking other measures deemed to be more responsible. Presently, there are no agreed upon standards defining sustainable investing.

Another example of a lack of standardization is PG&E, the California utility company. It scored very high (on a relative scale) on affordable and clean energy measures and was *included* in the list of sustainable growth companies. Then suddenly, the company filed for bankruptcy protection after being held liable for the damages caused by California wildfires due to a faulty powerline in 2018. The liability verdict suddenly kicked this company off of the sustainable investing list because of "poor corporate governance". Seems a bit strange to me that a company can be on the sustainable investment list until something unpredictable occurs and then it is not included.

My point is, what constitutes selection or inclusion into the "sustainable investment" group is subjective just like other terms we hear such as conservative, moderate, progressive and liberal.

The second point is a suggestion: Do not start creating a sustainable investment portfolio primarily because articles and advertisement state that the *performance* of Sustainable investing, socially responsible or any other similar approach is BETTER. It's not. Both sides of the argument can show you time periods where investment performance was superior, just like those commercials or advertisements that state gold is a great store of value and has superior performance.

If you are interested in exploring a sustainable investing approach within your managed account, please call and make an appointment to discuss this subject further. In the meantime, consider another more effective approach, highlighted below.

If you feel compelled to invest your savings in a manner that matches your beliefs with regard to the environment, human rights or social impact, then this decision is based on your convictions – not investment performance.

How you spend your money and live your life has a much bigger impact on a company's profitability and stock performance than whether you buy or refuse to buy shares of stock of a particular company in your investment portfolio. When you or your advisor buys shares of any company listed on the stock exchange, you are simply buying from someone else who is selling – not the company.

Lifestyle changes such as driving electric autos, installing solar, riding a bike more often, avoiding anything made of plastic, and many other choices have a much larger impact on company stock prices. If you don't use/buy the products, the company does not benefit from you.

ALERTS FROM CHARLES SCHWAB

Fake emails and identity theft are commonplace. Charles Schwab has contacted all financial advisers to alert us and clients regarding fake emails or texts claiming to come from Charles Schwab. Text messages are being sent to some Schwab clients appearing to be from Schwab, but are not authentic. The texts falsely advise that there has been suspicious DEBIT card activity in the client account (Note nearly all of our clients DO NOT have a debit card issued on their Schwab account).

The message asks recipients to click on a link that brings them to a fake Schwab website and prompts users to enter their Schwab credentials and email address. **These texts ARE NOT from Schwab.**

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If you receive one of these text massages, please contact us immediately. Take these actions:

- Take a screen shot of the text and send it to ***phishing@Schwab.com***.
- If a client HAS NOT acted on the text, clients can safely ignore it.
- If a client HAS clicked on the hyperlink and entered any information or credentials, please do the following:
    1. Change your Schwab log in and password for online access to Schwab (Schwab Alliance)
    2. Contact Brian D Lowder, Inc. immediately.

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