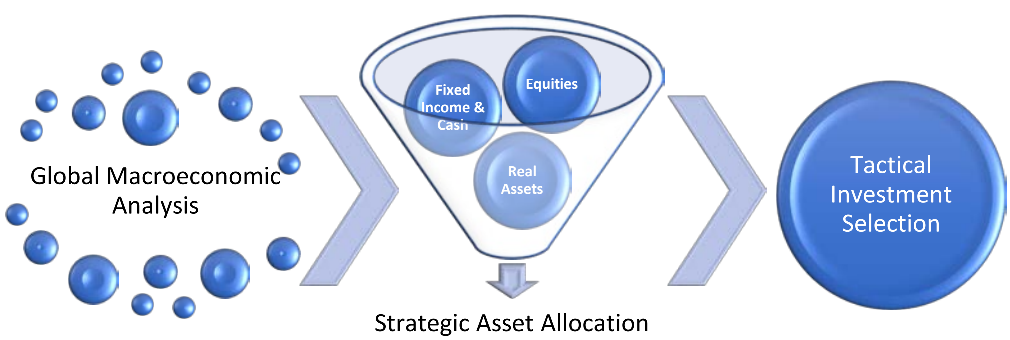
Monthly Investor Letter

June 7, 2018: ReDefine Wealth Management provides clients and business partners with a differentiated suite of services and products. This monthly letter encapsulates how our team is looking at the world and the practical implications of our approach. This letter is designed to illuminate the process behind the implementation of investment decisions within ReDefine Wealth Management portfolios.

ReDefine Wealth Management Dynamic Investment Strategy

Anecdotal and historical evidence suggest that mitigating portfolio drawdown has the greatest impact on portfolio success. *Quite simply, it is more efficient to grow wealth by not losing wealth.*

Our investment strategies are designed to protect and grow wealth through a top-down hierarchy consisting of **Global Macroeconomic Analysis, Strategic Asset Allocation,** and **Tactical Investment Selection.**



Our **Global Macroeconomic Analysis** provides the basis for attractive reward versus risk global investment opportunities. The findings of our analysis help to inform our **Strategic Asset Allocation**, wherein we divide assets between three primary portfolio components – *Equities, Fixed Income/Cash,* and *Real Assets* - then further divide the primary components into sub-components, for example Equities may be divided between disparate geographies and various capitalization sizes. Once the allocation is decided, we begin our **Tactical Investment Selection** to specifically choose the financial instruments we will use to implement our globally thematic strategic asset allocation.

Our process allows us to handpick and tactically manage investments in highly-liquid financial instruments, such as: *ETFs, Mutual Funds, SMAs, CEFs, and Options.* So, while we may hold similar "investments" as traditional portfolios, it is our approach and flexibility that allows for asymmetric returns relative to risk.

FUNDAMENTAL GLOBAL MACROECONOMIC BACKDROP

Judging by traditional economic measures, the stars seem to be aligned for inflation to rise.

Our outlook for global inflation was led by the US, whose central bank was among the first to begin monetary tightening policies, i.e. ending quantitative easing and beginning to raise rates. The Federal Reserve has continued its path to accommodate higher inflation by raising target rates on bonds. Although the Fed refrained from raising in their last meeting, most economists and Fed watchers expect several additional rate hikes this year.

The European Central Bank (ECB) had given indications that they were planning on following the US path later this year. Recent events in Italy however, may alter those plans. The newly-formed Italian government, led by members of the 5-Star and Lega parties both of whom have populist agendas, will likely cause a confrontation with the European Union in the near future. Offering potential similarities to Brexit. As Italy is the third-largest economy in the EU, the ECB cannot afford to ignore this challenge. Therefore, it is entirely possible that *Europe will not just postpone monetary tightening this year but could extend or even expand its current quantitative easing policies.*

If so, the Fed could pause its rate raising activity to ensure that US rates don't further deviate from the ECB. We believe this would be unlikely and merely delay the inevitable and potentially amplify future hikes. Stay tuned.

The *US economy remains on track for steady growth* in the face of rising rates and rising inflation. Manufacturing PMI continued its streak above 50, indicating economic expansion. The last time it showed signs of a slowdown was briefly back in August 2016. And while levels above 60 are typically brief, this measure of the economy is showing no signs of slowing down - yet.

Source: Bloomberg

Domestic employment figures likewise remain strong and continue to be aided by the lack of available workers. In economic theory, these figures should forecast an increase in wages, as companies must pay existing employees more to avoiding having to recruit new, more expensive talent from a smaller recruitment pool.

As illustrated in the following chart, *this is only the second time since 1970 that the US has reported an unemployment rate of 3.8% or lower.*

Source: Bloomberg

With lower unemployment, we have begun to see wages climb. Historically, wage increases have been the missing piece to the inflation puzzle, serving as a harbinger of higher costs being pushed through to the end-user. In fact, many companies have begun to report plans to pass their increasing input costs along to consumers.

The Global Economy is a complex ecosystem of regional economic and public policy decisions. And even in a perfect world, accurate predictions remain elusive. However as mentioned previously, *we feel the stars seem to be aligned for inflation to rise.*

GLOBAL EQUITIES

Domestic equity markets remain a mixed bag, with the *Nasdaq and Russell 2000, i.e. small cap stocks, leading the way,* while the broader large-cap US indices - S&P 500 and Dow Jones Industrial Index - have lagged. While these two major indices have not reached the highs seen in January, they have also not technically reversed downward. We remain exposed to the broader market indices, as their overall trend since 2009 is positive. We augment that exposure with additional investments to our outperformance target sectors, which remain technology and financials. And we have added additional exposure to the small cap and energy sectors.

Dramatic geopolitical shifts provide a sharp contrast with a growing European economy, and present even greater challenges in foreign equities. We currently maintain a relatively small active position in foreign developed markets.

We are neutral to emerging markets currently, however we are researching potential short exposure if the US Dollar continues to strengthen. While we always look for opportunities to add short positions, from a risk-return perspective we are currently finding a dearth of attractive candidates.

This could change.

Global Fixed Income & Cash

We continue to hold *low-duration, high credit-quality fixed income investments*, as we believe the trend of increasing rates will continue. We established, then exited a short position in long-dated Treasury Bonds this past month. Our thesis was based upon rates accelerating into the summer. However, early gains subsided as the events in Italy created a domino-effect flight to quality, which triggered capital flows into longer dated US Debt. Thus, we exited the short position quickly. The thesis remains attractive long-term and we will look for another entry point for that trade.

Our general fixed income outlook remains tilted toward higher rates, and we expect that ride to be volatile one. Any short positions will be treated as shorter-term trades with the intent of providing alpha to the portfolio, which contrasts with our overall longer-term buy and hold fixed income strategy.

Global Real Assets

The *US Dollar has shown continued strength* meeting our expectations. As the Fed continues along its path of monetary tightening they will reduce the overall amount of dollars available to the rest of the world. However, the Fed planned on coordinated tightening in Europe, which would serve to increase the value of the Euro, slowing the relative rise of the US Dollar.

If events in Italy force the ECB to change course, the US Dollar could potentially accelerate much faster than expected. Leading to a scenario where the Fed could find itself in position to overcorrect, i.e. execute multiple rate rises or hikes of greater magnitude than .25%. If the world is lacking another major economy raising rates at the same time we would anticipate US Dollar to greatly accelerate. Global commodities should be more volatile and attractive opportunities and entry points should present themselves, as global commodities are denominated in US Dollars.

Conclusion

Higher levels of volatility remain the norm across all markets. While this creates opportunities in short-term positions it raises uncertainty in underlying long-term trends. At this point, long-term uptrends in domestic equity and fixed income markets remain in place but on shaky ground. Further geopolitical events, such as trade wars, North Korean nuclear uncertainty, and the like, may create heightened activity through what was already forecasted to be an interesting summer. We remain steadfast in our belief that with risk and uncertainty comes opportunity. We ask our clients and partners to allow us the privilege of doing the worrying, so that they don't have to. This should be a summer to remember.

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