RWM Monthly Market Commentary

December 2018

ReDefine Wealth Management

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Market Performance Roundup *As of 11-30-2018*

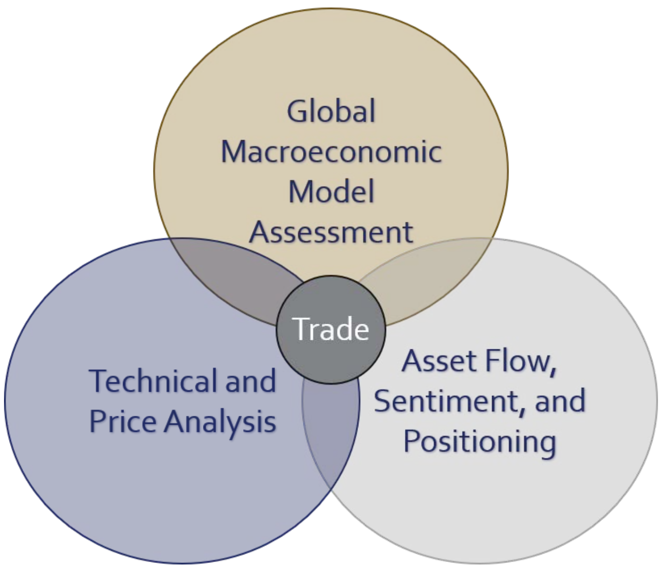
ReDefine Wealth Management

WORLD MARKETS

		NOV 30, 2018	QTD	YTD	1 YR.	3 YR.	2017
Global Equities (USD, % chg.)	*MSCI All Country World (Total Return)*	2.87%	(5.87%)	(2.07%)	(0.46%)	9.15%	24.62%
	MSCI World (Total Return)	2.45%	(5.91%)	(0.69%)	0.68%	9.11%	23.07%
	MSCI EAFE (USD) (Total Return)	1.37%	(7.88%)	(8.96%)	(7.48%)	4.63%	25.62%
	MSCI Emerging Markets (Total Return)	6.31%	(5.57%)	(11.96%)	(8.75%)	9.80%	37.75%
Country Equities (Local, % chg.)	*Dow Jones Industrial Average (Total Return)*	3.10%	(1.13%)	5.59%	7.62%	15.76%	28.11%
	S&P 500 (Total Return)	3.15%	(4.37%)	5.11%	6.27%	12.15%	21.83%
	NASDAQ (Total Return)	2.52%	(9.12%)	7.24%	7.75%	14.06%	29.64%
	Russell 2000 (Total Return)	1.92%	(11.18%)	0.98%	0.57%	10.07%	14.65%
	Nikkei 225 Stock Average (JPY) (Total Return)	4.20%	(1.53%)	(0.01%)	0.31%	6.23%	21.33%
	STOXX Europe 600 Euro (Total Return)	0.73%	(6.87%)	(5.06%)	(4.35%)	0.88%	11.22%
	FTSE 100 (Total Return)	(0.31%)	(6.31%)	(5.43%)	(0.67%)	7.40%	11.95%
	DAX 30 (Total Return)	(0.27%)	(9.90%)	(12.85%)	(13.57%)	(0.37%)	12.51%
	Shanghai Composite	0.78%	(5.46%)	(21.74%)	(21.98%)	(9.09%)	6.56%
Global Fixed Income (USD, % chg.)	*Barclays Global Treasury (Total Return)*	0.23%	(1.55%)	(2.89%)	(2.79%)	2.25%	7.29%
	Barclays US Treasury (Total Return)	0.63%	(0.47%)	(1.27%)	(0.96%)	0.63%	2.31%
	Barclays Global Aggregate (Total Return)	0.10%	(1.63%)	(3.16%)	(2.82%)	2.20%	7.39%
	Barclays US Aggregate (Total Return)	0.37%	(0.80%)	(1.79%)	(1.34%)	1.33%	3.54%
	Barclays Global High Yield (Total Return)	(0.90%)	(1.57%)	(3.33%)	(2.89%)	6.15%	10.43%
	Barclays US Corporate High Yield (Total Return)	(0.65%)	(1.92%)	0.06%	0.36%	7.09%	7.50%
	S&P Leveraged Loan Index (Total Return)	(0.95%)	(0.24%)	3.09%	3.47%	5.36%	4.11%
	Barclays Emerging Markets (Total Return)	(0.32%)	(0.35%)	(3.77%)	(3.40%)	4.08%	8.17%
Real Assets (USD, % chg.)	*USD DXY*	0.27%	2.69%	5.59%	4.54%	(0.97%)	(9.87%)
	Dow Jones US Real Estate Index (Total Return)	3.57%	(0.45%)	3.95%	3.86%	7.48%	9.84%
	Bloomberg Commodity Index	(1.02%)	(0.70%)	(4.68%)	(1.83%)	1.64%	1.70%
	S&P GSCI Gold	0.06%	1.74%	(6.36%)	(3.97%)	4.79%	13.68%
	S&P GSCI Precious Metals (Total Return)	(0.43%)	1.37%	(8.32%)	(5.73%)	3.42%	11.98%

December 1, 2018: *ReDefine Wealth Management* provides clients and business partners with a differentiated suite of services and products. This monthly commentary encapsulates how our team is looking at the world and the practical implications of our approach. It is designed to illuminate the process behind the implementation of investment decisions within ReDefine Wealth Management portfolios.

ReDefine Investing with *Global Thematic* Portfolio Management



Anecdotal and historical evidence suggest that mitigating portfolio draw-down has the greatest impact on portfolio success.

Quite simply, it is more efficient to grow wealth by not losing wealth.

In order to facilitate portfolio success, ReDefine Wealth Management employs a Global Thematic approach to our investment portfolios. Meaning that our *Global Macroeconomic Analysis* provides the basis for attractive reward versus risk within global investment opportunities.

The findings of our macro analysis help to narrow down the field of potential investments and, coupled with our asset flow and sentiment analysis, works to inform our *Strategic Asset Allocation.*

Wherein we divide assets between the best opportunities that we can source within three primary portfolio components – *Global Equities, Fixed Income/Cash, and Real Assets*

Then we work to further divide the primary components into sub-components, for example Global Equities may be divided between disparate geographies and various capitalization sizes.

Once the general 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. During this phase we employ our technical and price analysis to pinpoint our investments. It is important to note that our tactical investments are also directional – i.e. long and short.

Our disciplined processes allow us to handpick and tactically manage highly-liquid financial instruments, such as: *ETFs, Mutual Funds, Stocks, Bonds, 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

Did Anyone Order the Volatility?

Our four major Global Investment Themes and general market assumptions from the beginning of 2018 have been relatively spot-on and have rotated in importance as the year has progressed. Thus far in the fourth quarter, our theme of rising global market volatility has truly taken center stage, and with it has come ever increasing levels of insecurity and confusion. As we mentioned last month,

"For the remainder of 2018, we believe the markets will be much more reactive to geopolitics than global liquidity and other macroeconomic forces."

And that outlook remains intact.

Wall Street is again focused on the upcoming actions of the Federal Reserve. Expectations have been that the Federal Reserve will raise interest rates again in December, and likely once more in March 2019. Rationale had been the strengthening US economy in most measures (GDP growth, employment, wages, etc.) and supported by Fed "forward guidance", which is essentially the language used in various Fed Governors' speeches.

But these expectations have recently been questioned as certain parts of the global economy are showing weakness. *Housing, a proxy for the broader US economy, has been weakening across the board on national and local levels.* New home sales, existing home sales, and home prices have declined steadily throughout the year, and more aggressively as of late.

As an example, Exhibit 1 on the following page is a chart for New Home Sales Year-over-Year and the decline this year is easy to see. Data such as this, along with Fed commentary, has led market participants to question whether the Fed should pause scheduled rate hikes in December and March.

On November 28th, FOMC Chairman Jay Powell gave a speech in which he stated the current level of interest rates is "just below" the "neutral range", which is where interest rates theoretically will not stimulate or slow the economy. Factually this was true, as 2.25% is in fact "just below" the 2.50%-3.50% range. Market pundits, however, translated his words into meaning the Fed is likely to pause rate hikes sooner rather than later, which immediately moved the stock market higher by more than 2% on that day alone.

By pure coincidence, on the same day, representatives

*As a reminder, our four major **Global Investment Themes** and general market assumptions at the beginning of 2018 were:*

Stock Prices Will Stair-step Higher While Bond Prices Stair-step Lower

Global Inflation and US Interest Rates Will Rise

US Dollar Will Strengthen and Global Political Unrest Will Increase

Global Market Volatility Will Rise

Fundamental Global Macroeconomic Backdrop (cont.)

from ReDefine Wealth Management attended a luncheon where former Fed Chairman Ben Bernanke held a conversation. While he believed the market's reaction to Chairman Powell's comments to be that of overreaction, he later provided a blueprint of how the Fed would respond in the future should they need to reverse policy from "tightening" to that of "loosening" financial conditions (as discussed in last month's Commentary). He also stated his belief that the Fed will raise rates in December, and March, before pausing to gauge the economy.

Exhibit 1 ***Source: Bloomberg***

We tend to believe it likely that the Fed will raise rates in the next couple weeks, then likely pausing rather than hiking in March due mostly to political and public pressure.

We also believe it likely that 2019 will be greeted by a challenging market due to continued volatility and heightened liquidity issues. As of now, the Federal Reserve is scheduled to remove an additional $600 billion of liquidity from the markets through Quantitative Tightening procedures. The European Central Bank (ECB) will join the "tightening" party by ending its bond-buying program, and the currency effects will become a stronger headwind for corporate earnings reports starting in mid-January.

Exhibit 2 ***Source: MI2 Partners, Bloomberg***

Our 2019 Market Outlook due out next month will go into detail on the themes that we believe will drive market action throughout 2019. For now, we will update Exhibit 2, an often cited chart illustrating the driving forces thus far in 2018: market liquidity, or lack thereof.

Global Equities

Market momentum is weak, volatility is higher, and credit spreads have widened. *All of which suggest that the risk of a near-term drawdown in stocks remains elevated, and investors should brace for continued volatility.* Although we are mindful of the potential risks of remaining invested in global equities against such a backdrop, we expect markets to move higher over our six-month tactical investment horizon. Our counter-cyclical allocations to specific parts of the fixed income and real asset markets should also help stabilize our portfolios amid likely volatility.

Volatility is a very interesting phenomenon where emotion can undermine and even overcome logic. And emotional forces can work to further exacerbate, or even mask, the root cause of the volatility itself.

As November began, we were hoping – not planning - for a reprieve from the volatile markets that marked the rockiest October in recent memory. We were disappointed to say the least. To demonstrate the destructive power of October 2018, while 8 of the 13 global equity markets that we actively track posted marginally positive numbers in November, all 13 equity markets and all 8 fixed income markets we monitor are still negative for the 4th quarter.

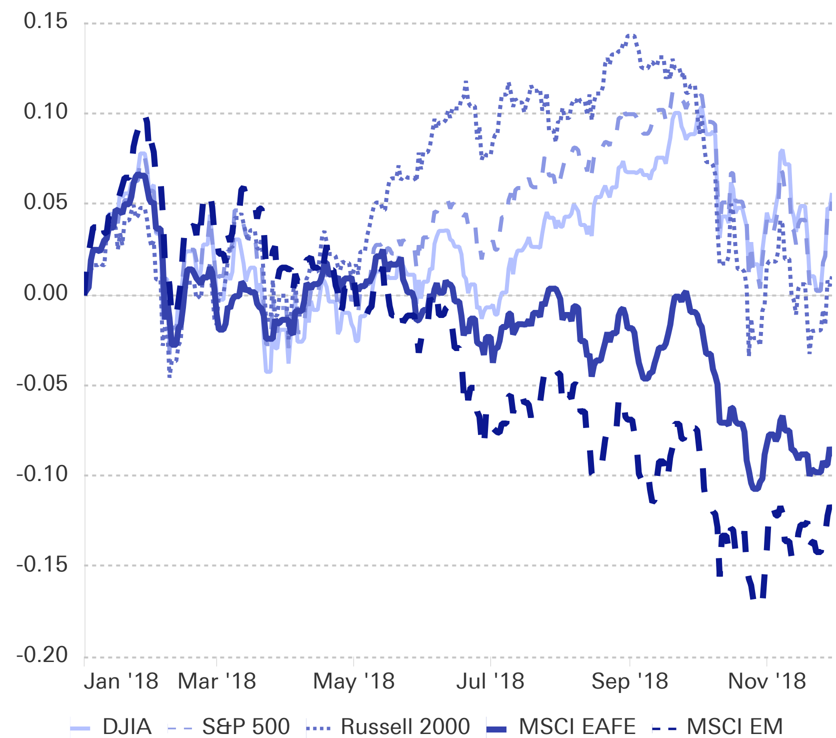
Exhibit 3 on the following page illustrates the VIX Index, which is a widely followed measure of stock market volatility. In general, the VIX rises because investors are nervous and begin selling stocks. Roughly-speaking, the level of the VIX indicates the uncertainty of the future market environment. The higher the VIX, the more uncertain. The lower the VIX, the more certain investors are, usually that it will continue to climb.

Current levels around 23 would suggest that the market could move +/- 23% over the next 12 months.

That's a big number. And we highlight the VIX to help shed some light on why portfolio and market performance has been evermore inconsistent as the year progresses.

Exhibit 4 on the following page shows the

Year to Date Global Equity Performance



	CURRENT PERIOD	YTD
Dow Jones Industrial Average (TR)	2.11%	5.59%
S&P 500 (TR)	2.04%	5.11%
Russell 2000 (TR)	1.59%	0.98%
MSCI EAFE (TR)	(0.11%)	(8.96%)
MSCI Emerging Markets (TR)	4.13%	(11.96%)

Global Equities (cont.)

of the S&P 500 for 2018. Since the October selloff, we have been in an area of consolidation (between the red lines). While this can provide interesting trading opportunities, it does not give clear guidance on longer-term trends moving forward. For that we must rely on more macroeconomic-based factors.

Last month we wrote,

"Our base case scenario is that the House will likely fall to the Democrats and the Senate will remain in Republican hands, causing a mixed market where volatility will remain elevated, but giving way to overall positive performance – higher highs and higher lows."

Although our statement was mostly correct, we noticed a disturbing trend in November which may be a harbinger of a cold December. *That trend is that we are not seeing higher highs and higher lows. We are seeing lower highs and lower lows.* That said, there are still the makings of a Santa Claus rally into year end, however there will most likely be dizzying highs and lows along the way.

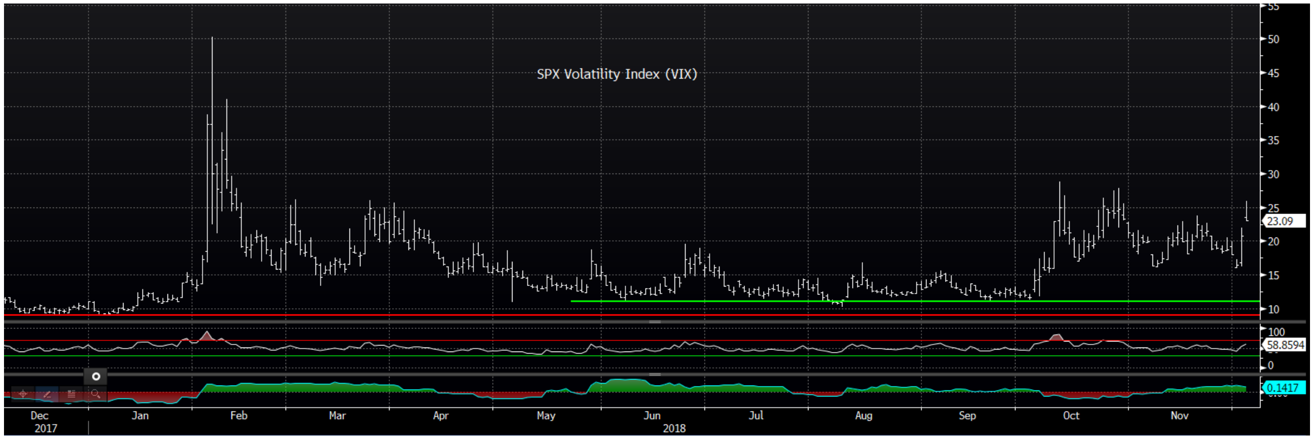


Exhibit 3 ***Source: Bloomberg***

Exhibit 4 ***Source: Bloomberg***

Global Fixed Income & Cash

We briefly mentioned in last month's commentary that one of our burgeoning themes is that Stock and Bond Negative Correlation Turns Positive. We still believe that to be the case…at some point. *Through this recent market volatility, bonds have provided negative correlation and thus have performed relatively well, comparatively.* Illustrated in Exhibit 5, the correlation between global stocks and global bonds, when positive (green), stocks and bonds are more likely to move together. In times when correlation is negative (red), stocks and bonds are more likely to move opposite of each other, providing an equity hedge. While correlation had been flirting with positive territory at various times this year, it began to move sharply negative with the October equity selloff.

Exhibit 5 *Source: Bloomberg*

Year to Date Global Bond Performance

	CURRENT PERIOD	YTD
US Aggregate Bond	0.60%	(1.79%)
US HighYield	(0.86%)	0.06%
Global Aggregate Bond	0.31%	(3.16%)
Barclays Emerging Markets	(0.16%)	(3.77%)
US 1-3 YR Treasury	0.36%	0.75%

Global Real Assets

As seen in the Market Performance Roundup, *precious metals are one of the few asset classes to have shown positive performance in the fourth quarter.* This is to be expected in times of volatility as gold can serve as a “safe haven” in times of uncertainty. The interesting part, however, is that the US dollar is another one of the few assets that show positive performance in Q4. *This is interesting because gold and the dollar have historically had a strong negative correlation.* However as demonstrated in Exhibit 6, both assets have rallied since the beginning of October. If this trend continues, it could provide an attractive entry point and opportunity in 2019.

The commodity making the most news over the last two months has not been gold, but oil. The extreme decline from the beginning of October has been reminiscent of the dramatic bear market in 2014-15, but to a far lesser extent... even down 35%. We attribute this decline to a combination of the aforementioned slowdown of the global economy, combined with a stronger dollar and increased supply. *Oil prices may see further pressure if the dollar continues to strengthen, but we do see great potential for price appreciation later next year.*

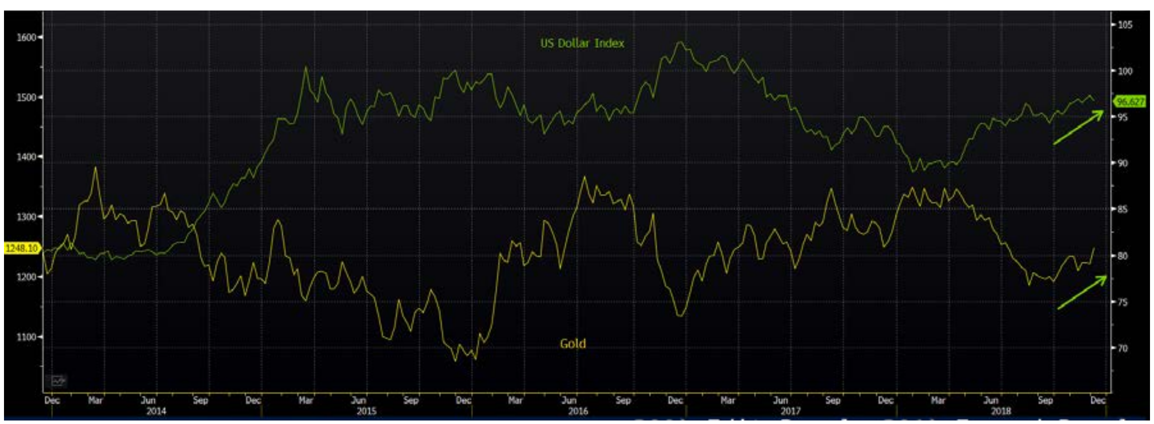
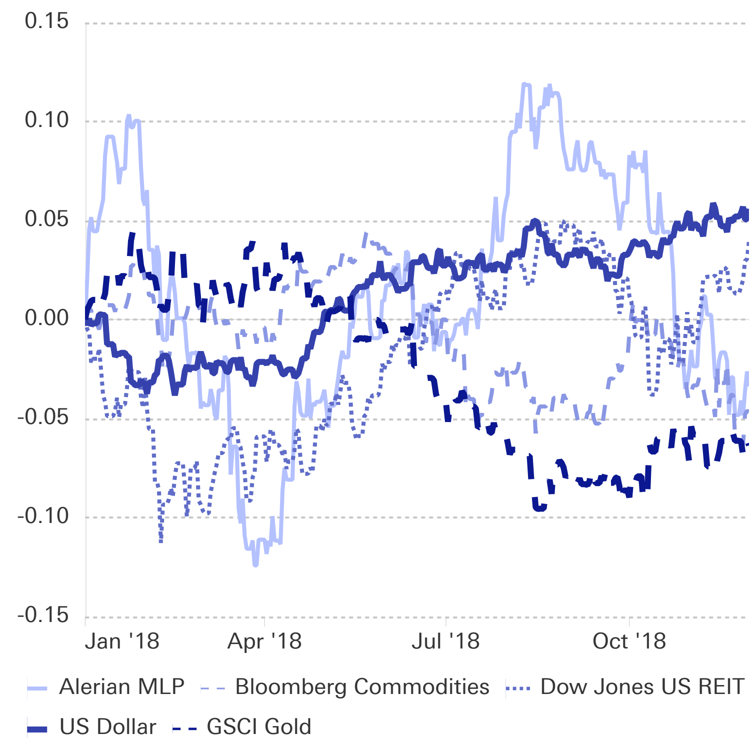


Exhibit 6 ***Source: Bloomberg***

Year to Date Global Real Asset Performance



	CURRENT PERIOD	YTD
Alerian MLP	(0.83%)	(3.38%)
Bloomberg Commodities	(0.56%)	(4.68%)
Dow Jones US REIT	4.71%	3.95%
US Dollar	0.15%	5.59%
GSCI Gold	0.91%	(6.36%)

Conclusion

We believe that the end 2018 will show an increase in volatility and also set the stage for how the markets begin 2019.

While there are still hopes of a "Santa Claus rally", the current data does not appear to support such an event. *This does not mean that further decline is a certainty, but it does create the motivation to have a plan in place should the market continue to correct.* With a rate hike decision in the near future as well, the holiday season promises to be an active one for market investors.

Please keep an eye out for our *2019 Market Outlook* and do not hesitate to reach out with any questions or concerns.

Please enjoy a happy and safe holiday season.

Disclosures

INVESTMENT RETURNS PRESENTED IN THIS STATEMENT ARE NOT AUDITED RETURNS. INVESTOR PERFORMANCE MAY DIFFER DUE TO FACTORS SUCH AS THE TIMING OF INVESTMENTS, TIMING OF WITHDRAWALS, CUSTODIAL AND OTHER FEES.

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