INVESTMENT OVERVIEW

for the quarter ending March 31, 2019

Equities in Review

After stocks suffered their worst quarterly decline in a decade to close 2018, they experienced a robust rally which almost completely reversed the fourth quarter losses.

The Fed indicated that they were backing off plans to increase interest rates due to signs of a weakening global economy and low inflation. This news helped alleviate investors' concerns that continued Fed tightening could be detrimental to equity prices.

Hopes for a trade deal between the U.S. and China improved as the quarter progressed, providing yet another boost to investor confidence.

Just as we noted last quarter when stock prices were in the midst of a deep decline, we continue to believe that to counter volatility, investors are best served by eliminating emotion (euphoria in the up periods and fear in the down periods) from long-term investment decisions and periodically rebalancing to target allocations which reflect their risk tolerance and time horizon.

Following are the quarterly, year-to-date and 5-year average returns for the six equity indexes that we track:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
DJ Industrial Average	Large cap stocks	+11.81%	+ 11.81%	+12.21%
MSCI EAFE	Foreign stocks of developed nations	+10.13%	+10.13%	+ 2.81%
MSCI Emerging Markets	Foreign stocks of emerging nations	+ 4.83%	+ 4.83%	+ 3.51%
NASDAQ Composite	Growth-oriented large cap stocks	+16.81%	+16.81%	+14.29%
Russell 2000	Small cap stocks	+14.58%	+14.58%	+ 7.05%
S&P 500	Large cap stocks	+13.65%	+13.65%	+10.91%
Weighted Index Benchmark*	Diversified Equities	+12.87%	+12.87%	+ 9.52%

**The Index weighting is 20% each: DJ Industrial Average, NASDAQ Composite, S&P 500, and Russell 2000; and 10% each: MSCI EAFE and MSCI Emerging Markets.*

Other Important Data

For the twelve months ending March 31, 2019, inflation as measured by the CPI increased 1.9%.

We believe the spread on the yield curve is a reliable leading indicator of the likelihood of recession. During the first quarter, the spread stabilized after consistently narrowing over the past couple of years. While the current spread implies recession is not imminent, we do note the spread remains narrow, which is a bit disconcerting. We will continue to monitor the yield curve very closely.

- March 31, 2019 0.41%
- December 31, 2018 0.39%
- September 30, 2018 0.60%
- June 30, 2018 0.65%
- March 31, 2018 0.88%

Equities Looking Forward

We avoid making short-term equity predictions because short-term market moves are often driven by factors other than fundamentals unpredictable. Our longer-term outlook is mixed for the following reasons.

- ***Bullish:*** The US economy continues to grow at a decent pace.
- ***Bullish:*** Unemployment is the lowest it has been in 50 years.
- ***Bullish:*** Inflation is relatively tame.
- ***Bullish:*** Interest rates remain low and do not look likely to rise in the near future.

- ***Bearish:*** Economic growth is slowing in other key parts of the world (e.g. Europe, Japan and China), which negatively impacts sales by US multinational corporations.
- ***Bearish:*** The uncertainty over the trade wars still looms despite reports of progress.
- ***Bearish:*** With the increase in stocks since year-end, market fundamentals are elevated (for example, average P/E ratios are in the upper teens), meaning stocks have to continue growing earnings to justify current prices.
- ***Bearish:*** The spread on the yield curve is much lower than it was a year ago meaning the likelihood of a recession is higher. That said, recession does not look imminent and we would be surprised if the economy entered a recession at all in 2019.

Hybrid and Hedging Assets

We believe that the Morningstar Moderate Risk Target Index offers the best benchmarks for hybrid and hedging assets. Returns are as follows:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Morningstar Moderate Risk	Hybrid (bonds and stocks)	+8.68%	+8.68%	+5.40%

Since the hybrid assets we own in our portfolios invest in a combination of securities including, but not limited to, bonds and stocks, the hybrid assets typically produce returns close to the average of the bond and stock index returns. This is the case for the quarter and for the annualized returns of the past five years.

Hedging assets like commodities or alternative strategies generally move with little, no, or negative correlation to the bond and stock markets. We believe hedging assets should play a role in diversified portfolios because over the long-term, their limited or inverse correlation to bonds and stocks should reduce the volatility of overall portfolio returns.

Bonds

Bond prices rose during the first quarter as yields dropped. The combination of recession fears and the fourth quarter stock market selling made longer-term, higher quality bonds the go-to asset class, with money flowing into longer-term issues. Since bond prices and bond yields move in opposite directions, the activity led to bond yields falling in all but the issues with the shortest times to maturity. The quarterly and historical results for the bond indexes that we track are as follows:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Barclays Municipal Bond	I-T US Municipality Issues	+3.16%	+3.16%	+4.10%
Barclays US Aggregate Bond	I-T US Gov't and Corporate Issues	+2.94%	+2.94%	+2.74%
Morningstar TIPS	Inflation Protected Gov't Issues	+2.64%	+2.64%	+1.62%
Average of the Indexes	Diversified Fixed Income	+2.91%	+2.91%	+2.82%

Moving forward, with the 10-year U.S. Treasury yielding 2.41% on March 31, intermediate-term and longer-term bonds seem slightly overvalued, while lower prices (and higher yields) make shorter-term fixed income bonds look undervalued.

The Fed, which was previously expected to raise rates three times in 2019, has recognized the slowing economic conditions and reduced their projection to two increases. The Fed has also suggested that they are monitoring inflation and other factors and are flexible enough to change with the conditions. While higher rates may produce subdued returns in the short-term, higher yields do provide longer-term benefits for savers.

Even when we think bonds are overvalued, we believe they have a place in diversified portfolios to reduce volatility, preserve principal and provide income.

Our Asset Allocation Philosophy

It is our philosophy that investors with long-term time horizons are best served by using a disciplined, diversified asset allocation approach (investing in bonds, hybrid and other hedging assets and stocks) rather than trying to time the markets. It is important to periodically review your asset allocation and your target allocation and to rebalance your assets among the classes to keep the allocation close to the target. We will address the issues specific to you when we review your situation in the coming months. In the interim, if you would like to discuss these issues, please contact us at howard@kadescheifetz.com or steve@kadescheifetz.com.

Reminders

Please contact Kades & Cheifetz LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Parts 2A and 2B of Form ADV and is available for your review upon request.

Kades & Cheifetz LLC has provided this overview for internal use and for use by our clients. We have prepared it using sources believed to be reliable. We do not guarantee the accuracy of the sources. We reserve the right to change our opinions (expressed above) without notice.

You should be receiving statements at least quarterly from your custodian. If you are not receiving these statements, or you need another copy of a statement, please call us and we will provide one to you. Clients are encouraged to review the information on the statements, especially the amount of fees deducted, and compare that information with any information provided by Kades & Cheifetz LLC. If there are any questions or discrepancies, please contact us as soon as possible.

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*Additionally, please remember to contact Kades & Cheifetz, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing or evaluating or revising our previous recommendations and/or services, or if you want to impose, add, to modify any reasonable restrictions to our investment advisory services. Kades & Cheifetz shall continue to rely on the accuracy of information that you have provided. **Please Note:** unless you advise, in writing, to the contrary, we will assume that there are no restrictions on our services, other than to manage the account in accordance with your designated investment objective.*

Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Kades & Cheifetz account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Kades & Cheifetz accounts; and, (3) a description of each comparative benchmark is available upon request.

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