KADES & CHEIFETZ LLC

INVESTMENT OVERVIEW

for the quarter ending
December 31, 2019

Equities in Review

What a difference a year makes! Twelve months ago, we wrote about the fourth quarter of 2018 which saw across-the-board equity losses including a 13.52% drop in the S&P 500. Beginning on the heels of that quarter with investor confidence low (and corresponding investor fear high), the S&P 500 posted a whopping 31.49% return in 2019, while the other equity indices we track also posted strong returns. These results serve as a reminder that predicting whether recent market trends will continue is a fruitless exercise, given that markets move in somewhat random patterns in short-term periods.

We are reassured by the resiliency of the global financial markets to shrug off policy challenges, political distractions, Brexit, and other newsworthy geopolitical events.

The S&P 500 is trading at 17x forward earnings, which is just slightly higher than historical valuations. The US economy continues to grow at 2% to 3%, which seems to be a sustainable pace.

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	+6.67%	+25.34%	+12.59%
MSCI EAFE	Foreign stocks of developed nations	+8.17%	+22.01%	+5.67%
MSCI Emerging Markets	Foreign stocks of emerging nations	+2.52%	+12.00%	+5.15%
NASDAQ Composite	Growth-oriented large cap stocks	+12.47%	+36.69%	+14.93%
Russell 2000	Small cap stocks	+9.94%	+25.52%	+8.23%
S&P 500	Large cap stocks	+9.07%	+31.49%	+11.70%
Weighted Index Benchmark*	Diversified Equities	+8.70%	+27.21%	+10.57%

**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 December 31, 2019, inflation as measured by the CPI increased 2.3%.

We believe the spread on the yield curve (the difference in yield between the 1-Year and 30-Year Treasury bond) is a reliable leading indicator of the likelihood of recession. During the fourth quarter, the spread widened to 0.80%. This spread is low by historical standards, but it is a step in the right direction, as it is more than double the spread at the end of the third quarter. The current spread implies a recession is not imminent. We will continue to monitor the spread amongst other metrics to gauge investor confidence, the health of the economy, and the likelihood of recession.

- December 31, 2019 0.80%
- September 30, 2019 0.37%
- June 30, 2019 0.60%
- March 31, 2019 0.41%
- December 31, 2018 0.39%

Equities Looking Forward

We avoid making short-term equity predictions because short-term market moves are often driven by factors other than fundamentals. 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, interest rates remain low, and rates seem more likely to fall further than to rise in the near future.
- ***Bearish:*** Economic growth is slowing in other key parts of the world (e.g. Europe, Japan, and China). Slowing worldwide growth negatively impacts sales and profits of US multinational corporations.
- ***Bearish:*** The rate at which corporations are buying back their own stock is slowing significantly.
- ***Bearish:*** Stock market fundamentals are elevated (average P/E ratios are in the upper teens), meaning companies must continue growing earnings to justify current stock prices.

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)	+5.23%	+19.03%	+6.75%

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, zero, 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 continued to rise in the fourth quarter capping a robust year for bonds. The 10-Year Treasury began 2019 with a yield of 2.66% and finished the year with a yield of 1.92% reflecting signs of improvement in the global economy. The yield reached a low of 1.47% in August before a slow and steady rise back to the current level. It seems reasonable to expect the somewhat muted returns bonds provided in the 4th quarter to continue into 2020. 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	+0.74%	+8.17%	+3.84%
Barclays US Aggregate Bond	I-T US Gov't and Corporate Issues	+0.18%	+8.72%	+3.05%
Morningstar TIPS	Inflation Protected Gov't Issues	+0.64%	+8.14%	+2.56%
Average of the Indexes	Diversified Fixed Income	+0.52%	+8.34%	+3.15%

The German Bund (Germany's equivalent of the 10-year Treasury) was -0.572% at the beginning of the fourth quarter and rose to -0.19% on December 31. So, while their yield is still negative, it is trending to a return to positive interest rates.

Despite the increase in the US bond market's yield spread mentioned above, intermediate-term and longer-term bonds continue to seem relatively overvalued (with less attractive yields), and shorter-term issues still look undervalued (with relatively more attractive yields).

When viewing US bonds in the realm of the worldwide fixed income marketplace, intermediate-term and longer-term US issues represent good opportunities when compared to yields on sovereign debt with similar maturities offered by the established markets outside of the US.

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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