Dear xxxx;

The four major indices that compose the public financial markets began 2018 with a bang, however, they finished the year at or below their starting value. The four major indices which track US Stocks (-7.36%), International Stocks (-16.45%), Commodities (-13.82%), and Fixed Income (0.01%), were seconds away from finishing the year in the red. In the last moments of the day on 12/31, the fixed income index did manage to eke out a gain of 0.01% for the year. This is the first time since 1976, when the fixed income index was launched, that both fixed income and US stocks had such poor full year returns. To put this another way, when looking at the performance of the public investment universe in 2018, the average security failed to deliver significant positive returns. This letter will provide an analysis of the major geopolitical and financial events that caused these negative returns and our views as to how these events will shape 2019.

**President Trump's Rhetoric**

Unlike past politicians and presidents who only spoke publicly after private discussions with advisors, President Trump acts more on impulse. As was the basis of his campaign, President Trump continues to believe his business acumen and gut instinct will "Make America Great Again." His rhetoric helped pass the 2017 Tax & Jobs Act and by September 21, 2018 the US stock market was up more than 40% since he won the presidential election in 2016. However, Wall Street and the investing public have been less amused by his latest tweets. After a potentially positive step forward with China, he tweeted that he was, "The Tariff Man." He pressured Jerome Powell and his policies to the point that it was all but certain Mr. Powell wouldn't and couldn't comply with the president. President Trump made it clear that he puts Saudi Arabian weapons deals ahead of the lives of American citizens. And finally, he placed the S&P 500 in a bear market when he began discussing the possibility of firing Jerome Powell.

It will be interesting to see what if any steps the Democratic House takes in 2019 to corral the rhetoric of President Trump. Should the market continue to fall in the wake of the President's future tweets, it is possible that the Republican Senate will back the Democratic House. Although this would be incredibly tumultuous, we believe it would eventually bring stability to the market. Alternatively, should President Trump be successful in his trade negotiations, we believe this would also give the market the boost it needs.

**Jerome Powell & The Federal Funds Rate**

Jerome Powell, the chairman of the Federal Reserve, must maintain independence from the executive branch of the US Government. Mr. Powell and his board of Governors must look at all available data to determine the Federal Funds rate that will best serve the current and future prosperity of America and her citizens. As soon as President Trump stepped up his criticism of the Fed it became all but certain that Mr. Powell would defy the President's wishes. How could he be "independent" while also buckling to the will of the President? The Fed was significantly more hawkish than the market had priced, and it was this hawkishness that put significant negative pressure on the stock market.

We do not believe it is in our country's best interest to continue raising rates through 2019 but we are also worried that Mr. Powell will do whatever is necessary to act independently from the executive branch.

**Oil**

Since reaching a four-year high of almost $77/barrel on October 3rd, the price of Crude Oil has fallen more than 40%. The reason for the price decline is simple, there is an overabundance of supply and weakening demand. President Trump warned major oil producing countries to increase production in expectation of renewed sanctions on Iran. However, once Russia and Saudi Arabia turned on the taps, President Trump granted generous exemptions to Iran's largest customers. This supply glut was coupled with October forecasts that oil demand would grow more slowly than anticipated. Once the selling began there was no holding back.

The breakeven point for new wells for most US producers is $50-55/barrel. Due to the recent price slump US companies are starting to pause their construction plans. At the same time, OPEC has decided to cut production by 1.2 million barrels per day. The dramatic fall in oil prices has played a significant role in the 14% annual decline in the value of the S&P Goldman Sachs Commodity Index (GSCI). With gasoline under $2/gallon across many states in the US, we believe oil prices are at or near their bottom. In agreement with the broader market, we foresee the price of oil increasing back to $60-70 in 2019 which will propel the S&P GSCI higher as well.

**China**

China's two major indices closed out 2018 losing 24% and 33% which equates to the indices' worst annual performance since 2008. While this was largely due to the escalating trade tensions between the US and China, the Chinese economy was further hampered by both a drop in their GDP growth and a contraction in their manufacturing sector. The US has also become increasingly vocal regarding Chinese military actions in the Pacific and their increased hacking and espionage activities. In an effort to inject capital into the market the Chinese government lowered their bank's reserve requirements, however, this did not provide nearly as much relief as was anticipated.

We believe 2019 negotiations with China will prove successful to a limited degree. We believe a trade agreement will be reached but the scope of the agreement won't be significantly superior to our trade relationship during the Obama administration. Much like the North Korea denuclearization pact, both President Trump and President Jinping will likely declare that they "won" the trade agreement. We believe this eventual agreement will bring calm to the market ultimately helping it to move higher.

**Conclusion**

The negative sentiment and market performance witnessed in the final three months of 2018 is in our opinion not the beginning of a cataclysmic market endemic like the Great Recession of 2008. Instead, we believe this correction was inevitable due to the tremendous bull run witnessed in US stocks since November 2016. While this correction may not be over, we believe the fundamentals of the US economy remain strong, and we view this as a buying opportunity. We are optimistic about the full year 2019 performance which we hope will be driven by solid corporate performance and profits.

We believe the Trans Pacific Partnership, the renegotiated NAFTA (USMCA), and additional direct investments in emerging markets will come together to boost the economic performance of international stocks in 2019. At the same time, we expect US companies to benefit from strong corporate earnings growth, a more dovish Fed, and some sort of trade agreement between the US and China. Oil we believe will rise boosting the performance of the commodity index while the Federal Funds Rate will stay relatively stable which should provide better fixed income returns.

**Clients with Taxable Accounts**

Please note, clients with taxable accounts at GA Pincus Funds may see IRS refunds from tax harvesting activities performed by GA Pincus Funds during fiscal 2018. Please use the 1099 you receive from TD Ameritrade in February to complete and file your taxes.

**Performance Calculations**

As you are aware, GA Pincus Funds has spent the last two years developing custom software to automate our business. Your performance is now calculated daily, taking into consideration daily deposits and withdrawals, and those daily returns are combined to form your quarterly, YTD, and since inception returns. When we round off this enhanced precision it may shift your performance by 0.01-0.02% when compared to the calculation ((end date value – start date value)/start date value). Please note, the performance figures on your statement are accurate and are GIPS (Global Investment Performance Standards) compliant.

It is impossible to predict whether and by how much the market will increase or decrease. Our algorithm rebalances your accounts according to changes in the relative weightings of the securities you hold. As one security becomes too heavily weighted the algorithm sells shares in that security. Conversely, as one security becomes too lightly weighted, the algorithm purchases shares of that security. Instead of rebalancing based on time (as most managers do), this algorithm rebalances based on a securities' relative weighting in the portfolio. This gives GA Pincus Funds a long-term advantage. No matter what the market does in the future or has done in the past, if your time horizon is long enough (>1 year), this algorithm has proven itself to be successful.

I am always available to answer any questions you may have.

Best wishes for a happy and healthy 2019,

Gabriel

GA Pincus Funds
Gabriel Pincus, President
550 Saint Clair Street, Suite 1703
Chicago, IL 60611

www.gapincusfunds.com
m: 917-597-1450
e: gabriel@gapincusfunds.com