Dear xxxx;

Another decade is in the books. This one began with the US economy still reeling from the housing crisis and ensuing recession in 2008 and 2009. On January 1, 2010, the S&P 500 was sitting at 1,123.58 but by the end of the decade it closed at 3230.78, just below an all-time high reached on 12/27/19. In total, the S&P 500 was up 187.54% over the last 10 years. These last 92 days that made up the fourth quarter of 2019 were the capstone to a tremendous year and fantastic decade for not only the US stock market but also stock and bond markets throughout the world.

Before discussing the events that shaped the quarter, it is important to understand the overall performance of the market during the last three months. The four major indices that compose the public financial markets: US Stocks (+0.63%), International Stocks (-2.50%), Commodities -4.18%), and Fixed Income (+2.27%), all finished at or near their all-time highs. This letter will provide an analysis of the major geopolitical and financial events that shaped the quarter.

Phase 1 US – China Trade Deal

Market performance in the fourth quarter was boosted by numerous positive comments from both the Chinese and US officials taking part in trade negotiations. Many market participants were confident some sort of agreement would be reached mainly because both countries could ill-afford a repeat of Q4, 2018. In May, President Trump threatened to slap tariffs on an additional $250 billion of Chinese goods. On August 13th, President Trump explained that he did not want the proposed tariffs to adversely affect holiday shopping, so he delayed them until December 15th. The weeks leading up to December 15th were rife with positive economic and trade-based news. The Fed held rates steady explaining that no changes were expected until next summer, job growth exceeded expectations, and China and the US announced their agreement on Phase 1 of their trade agreement.

Based on press releases issued in December, the US agreed to cancel the proposed December 15 tariff hike, reduce the 15% tariffs on $120bn of Chinese goods to 7.5%, and import Chinese-made cooked poultry and catfish products. For their part, China will step up intellectual property protection through criminal and civil charges against counterfeit goods and other IP theft, significantly increase purchases of US agricultural products, and remove the ban on US poultry imports. Finally, negotiations regarding phase two of the trade deal will start immediately rather than after the 2020 election.

It is our opinion that President Trump "won" Phase 1 of the US-China Trade war. The tariff-related concessions made by the US were originally initiated to fight back against Chinese forced technology transfers and IP theft. At the end of Phase 1, President Trump seems to have gotten exactly what he wanted. He lowered some tariffs but kept others, and in return, China is giving the US everything President Trump asked for and more.

On December 13th, the same day China officially announced Phase 1 of the trade deal, the S&P 500 hit its intraday all-time high of 3182.68. Positive trade news coupled with robust retail holiday sales figures helped propel the S&P 500 to an all-time intraday high of 3,041.81 on December 27th.

Earnings

During the last three months the companies that make up the S&P 500 reported their third quarter 2019 earnings. Since stock prices tend to rise on earnings beats, analysts tend to underestimate their corporate earnings expectations. On average, companies tend to beat analyst estimates by 65%, however, last quarter, companies exceeded analyst estimates by more than 75%.

Some exceptional stock movements in the fourth quarter can be attributed to earnings which smashed analyst expectations. After beating analyst expectations by 2.28 per share, Tesla's stock price soared more than 60%. Rite Aid's earnings were six times better than expected (0.54 actual vs 0.09 expected) which helped the company's stock price soar by 150% in the final days of the fourth quarter. In a year where Toys-R-Us went bankrupt, Mattel also surprised to the upside, sending their stock up more than 30% by the end of the quarter. The abundance of earnings beats was just one more catalyst for the outstanding returns delivered by the stock market this quarter.

Free Trading & Corresponding Schwab Acquisition of TD Ameritrade

On October 1st, Charles Schwab announced they would no longer charge commissions on US stocks, ETFs, and options. While trading costs have been dropping over the years, no one expected a major brokerage firm to remove commissions altogether. In the days that followed Schwab's announcement, E*Trade, Fidelity, and TD Ameritrade followed suit and removed their commissions as well. In the weeks and months that followed, even some traditional wealth managers, Wells Fargo, and Merrill Lynch, joined the no commission party, albeit not on all accounts.

Schwab earns most of their revenue on the spread between what they pay their clients on cash balances and what they receive by lending out that cash. For Schwab, trading commissions only represented 3% of annual revenues, and executives believed the increase in new accounts would outweigh the lost revenue. The other discount brokerages (TD Ameritrade, Fidelity, and E*Trade) relied on trading commissions for a much larger percentage of revenue – up to 25% in the case of TD Ameritrade. The announcement that the discount brokerages were following Schwab's lead and removing commissions caused their stock prices to crater.

On November 25th, Schwab announced their intended purchase of TD Ameritrade. Schwab offered TD Ameritrade shareholders a 25% premium on the market value of the company. Since Schwab orchestrated the stock price decline of TD Ameritrade, they were able to acquire the company for significantly less than it would have cost them a few months earlier.

The removal of commissions significantly increased the number of new accounts created at discount brokerages in the fourth quarter. Further, the removal of commissions has led to increased trading activity within the US retail market. We believe the removal of commissions was a significant driver which propelled the stock market to the record highs it reached this quarter.

Effect of the Schwab - TD Ameritrade Merger on Clients of GA Pincus Funds

The Schwab – TD Ameritrade Merger is subject to regulatory approval. If that approval is granted, the tie-up is expected to occur in late 2020. Upon completion of the merger it is expected to take an additional 18-36 months for the two firms to begin functioning as one entity. GA Pincus Funds will continue to keep you abreast of the latest changes and pertinent information as this process moves forward.

SECURE Act

The Setting Every Community Up for Retirement Enhancement Act, better known as the SECURE Act, was signed into law by President Trump on December 20th. The SECURE Act is proof that even amid an impeachment trial, the Republicans and Democrats can work together to benefit the US populous. The SECURE Act helps to improve the retirement outlook for substantially all people in the US.

The highlights of the SECURE Act are:

- Increases the required minimum distribution age from 70.5 to 72
- Eliminates the maximum age for traditional IRA contributions
- Requires non-spousal beneficiaries of an IRA account to withdraw all funds within 10 years
- Allows small businesses to pool together to create joint retirement plans, employee eligibility threshold is reduced, and employers receive additional tax credit if they start a plan with auto-enrollment
- Permits penalty-free withdrawals from retirement plans for birth or adoption expenses up to $5,000
- Enables the purchase of annuities in 401(k) plans (GA Pincus Funds does not recommend this)

Conclusion

Of the 64 trading days this quarter, up days outnumbered down days almost 2:1. Through the duration of the quarter, it began to feel like the US stock market was on a steady march higher. Most world economies ended the year on the upswing. The US unemployment rate is down, global manufacturing is up, retail spending is up, the Fed held rates steady, the trade war handed the US its first victory, companies delivered stronger than expected revenues and profits, Brexit looks like it might finally happen, the French 10 year bond turned positive, and bipartisan legislation was passed that benefits US citizens.

Once again, this letter purposefully did not comment on the elephants in the room - President Trump's impeachment proceedings and the 2020 election - because they were non-events for the market. We want to thank you all for being clients of GA Pincus Funds and are extremely proud of the results we have achieved for you this year. We remain bullish on the market leading into 2020.

Client Referral Network

One of the oldest and most successful methods to grow a business is through word of mouth. GA Pincus Funds has been fortunate and has grown substantially due to referrals made by you and your fellow clients. We would like to use our future quarterly newsletters to return the favor to our clients. We plan to dedicate a section of our newsletters to our client's businesses. Rather than list your name or company name, we will instead indicate the category of business and location where you operate. For example, Real Estate Professional in Chicago, or Employment Lawyer in Georgia, or Public Relations Professional in New York, etc. If you would like to participate in this program, please let us know. This referral program is **free marketing** for your business. **We will not accept payments for these referrals.**

Performance Calculations

The performance of your accounts is 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.

Happy New Year!

Best wishes for a happy and healthy 2020,

Gabriel

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