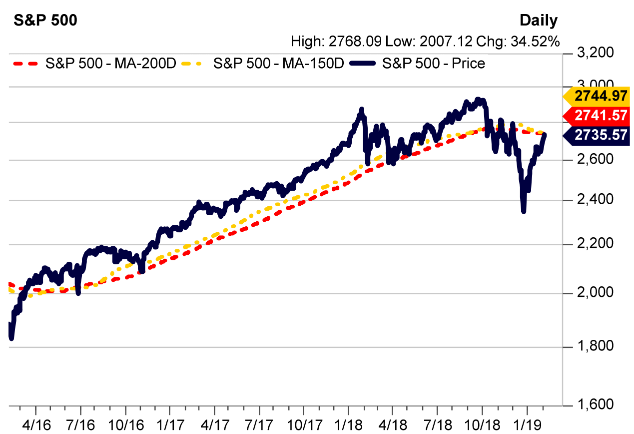
Observation Deck

Views from the Investment Policy Committee



1st Quarter 2019

Purpose

- The Observation Deck is a series of pictures designed to communicate points of view and to stimulate discussion and debate, it is NOT a set of recommendations
- Our commentary is not the result of any single data point or graphic, it is a reflection of the weekly conversations within the Investment Policy Committee and a set of perspectives that are derived from many observations accumulated over varying time frames
- Slides that are included in the Observation Deck are a subset of the scores of data points and graphics that the Investment Policy Committee views each week in assessing the status of the business cycle and the health of financial markets
- We hope that you enjoy the Observation Deck and recognize that the views and opinions expressed are capturing a moment in time and are subject to change without notice

Macro TIP Chart

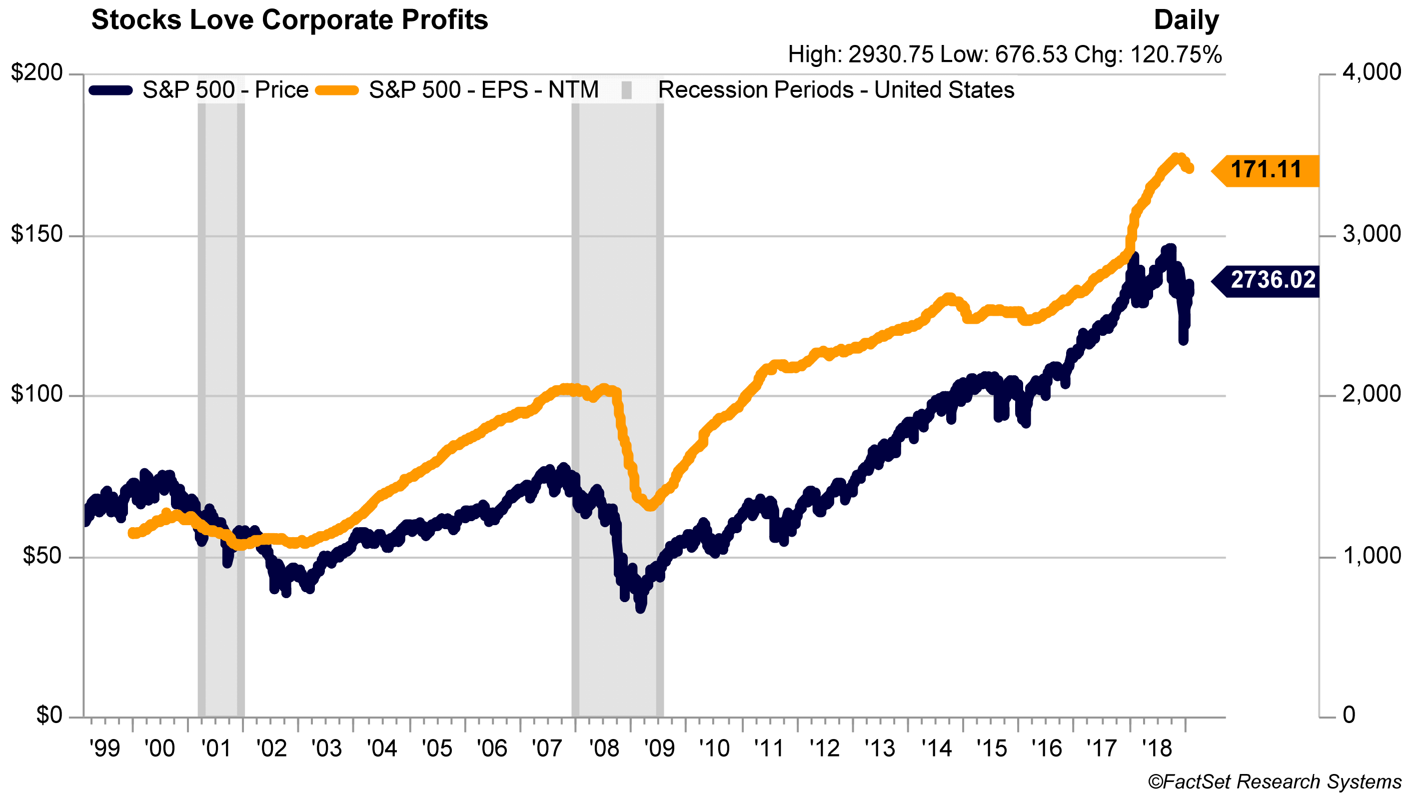
Tactical Investment Positioning

1st Quarter 2019

Strength of Conviction	Chg	Negative — Neutral — Positive	Rationale
Business Cycle	←	□□■□□	US growth rate slowing toward sustainable trend, “soft landing” scenario. Recession risk rising in International economies.
Financial Conditions	←	□■□□□	US rate cycle nearing its conclusion while Fed balance sheet continues to roll-off. Global policy beginning to tighten.
Relative Preference	**Chg**	**Neutral**	**Rationale**
Asset Class	←	Bonds — Stocks □□■□□	Bond yields have climbed to attractive levels relative to inflation expectations. Profit growth decelerating, but remains positive.
Economic Sensitivity	←	Defensive — Cyclical □■□□□	Profit cycle facing margin pressures from slowing growth and escalating trade tensions. Defensive sectors remain expensive.
Credit Quality		Sovereign — Credit □□■□□	Credit fundamentals remain positive and valuations have become more attractive after experiencing wider spreads.
Duration Profile		Short Maturity — Long Maturity □■□□□	Business cycle reaching late stage. Yield curve approaches inversion. Very little compensation for extending maturity risk.
Commodities	←	Below Weight — Above Weight □■□□□	Some demand destruction associated with global slowdown.
Cash	→	Below Weight — Above Weight □□□■□	Rising cash yields offer competition to financial assets for the first time in over a decade.

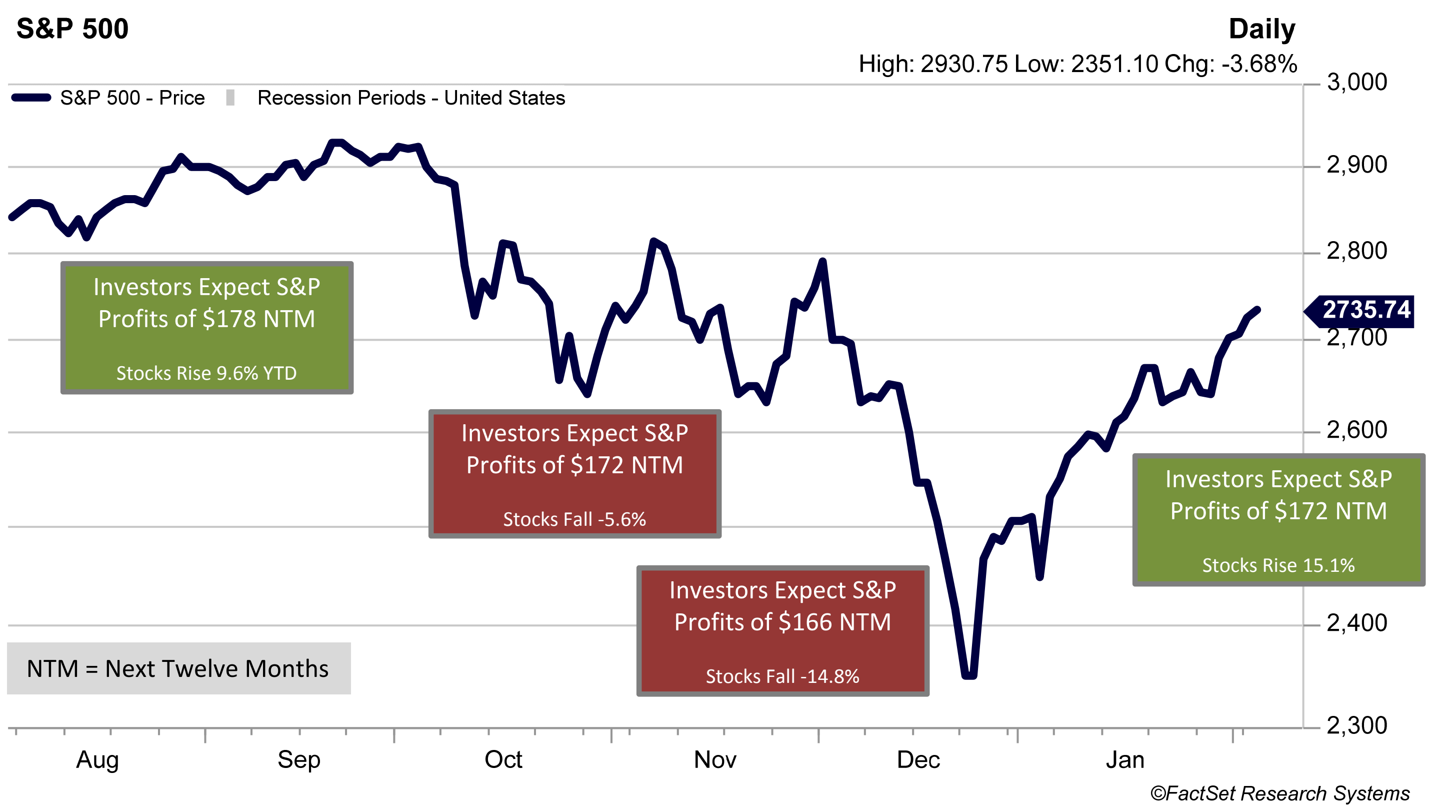
Observation #1
Stocks Love Profits

- Stock prices (blue line) usually reflect the expected path of corporate profits (gold line), investors wanting to own shares when profits are rising but quick to exit stocks when the earnings outlook begins to wane.
- As recently as September 2018, the S&P500 (blue line) hit an all-time high of 2930 on the back of lofty expectations that corporate profits could reach $178 per share for the index over the next twelve months (NTM).
- The extraordinary decline in stock prices during the 4th quarter of 2018, including the worst December for the S&P500 since 1931, may lead an observer to conclude that profits are about to plummet.



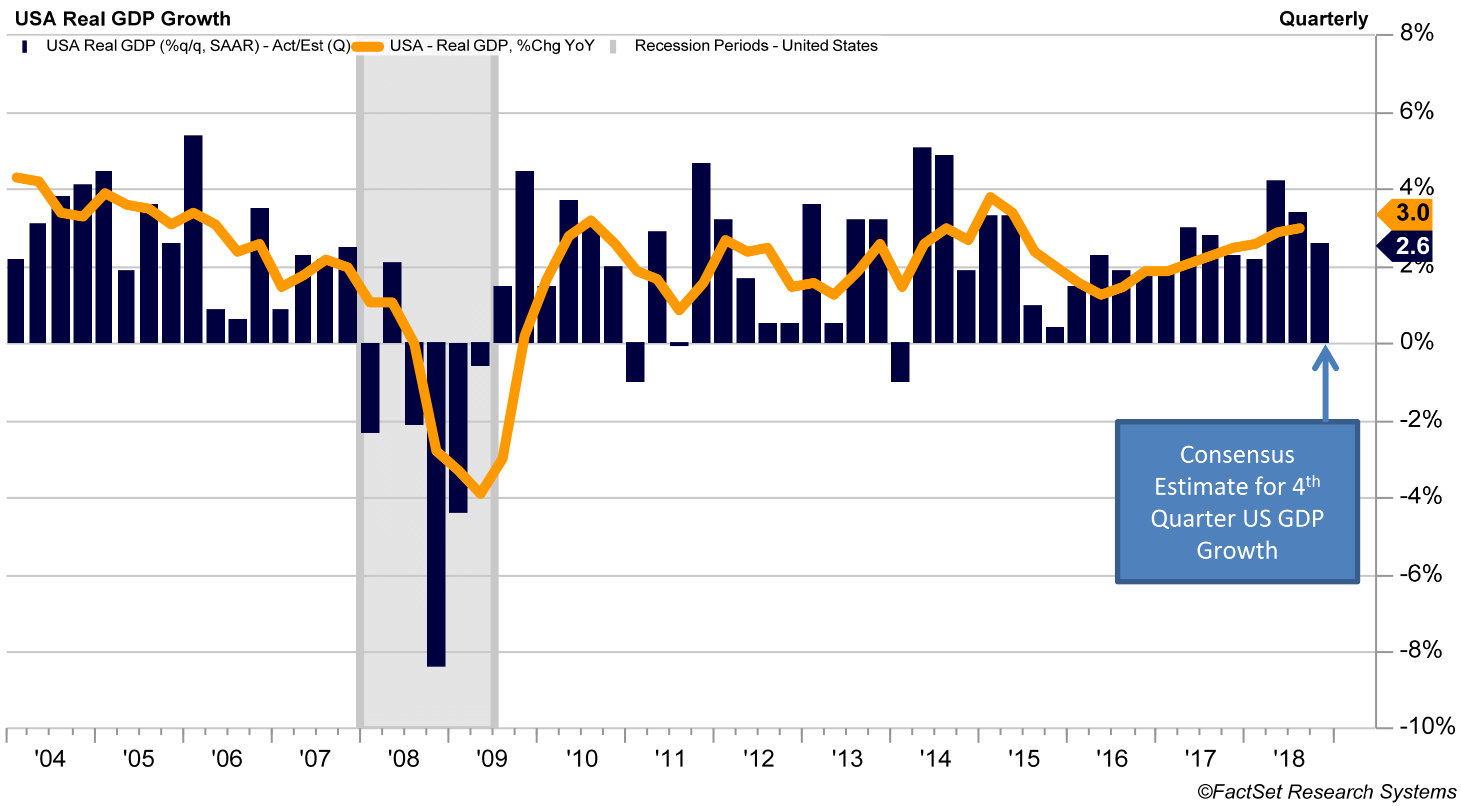
Observation #1
Stocks Love Profits

- The realization that global economic growth was slowing, caused investors to reassess the profit outlook and adjust stock prices, the S&P500 declining -5.6% from October 1st thru November 30th, then falling another -14.8% from December 1st to the Christmas Eve low of 2351, completing a peak to trough decline of -19.3%.
- The 15.1% recovery thru January 31st may suggest that sentiment had become too pessimistic and that the profit outlook had become overly dire.



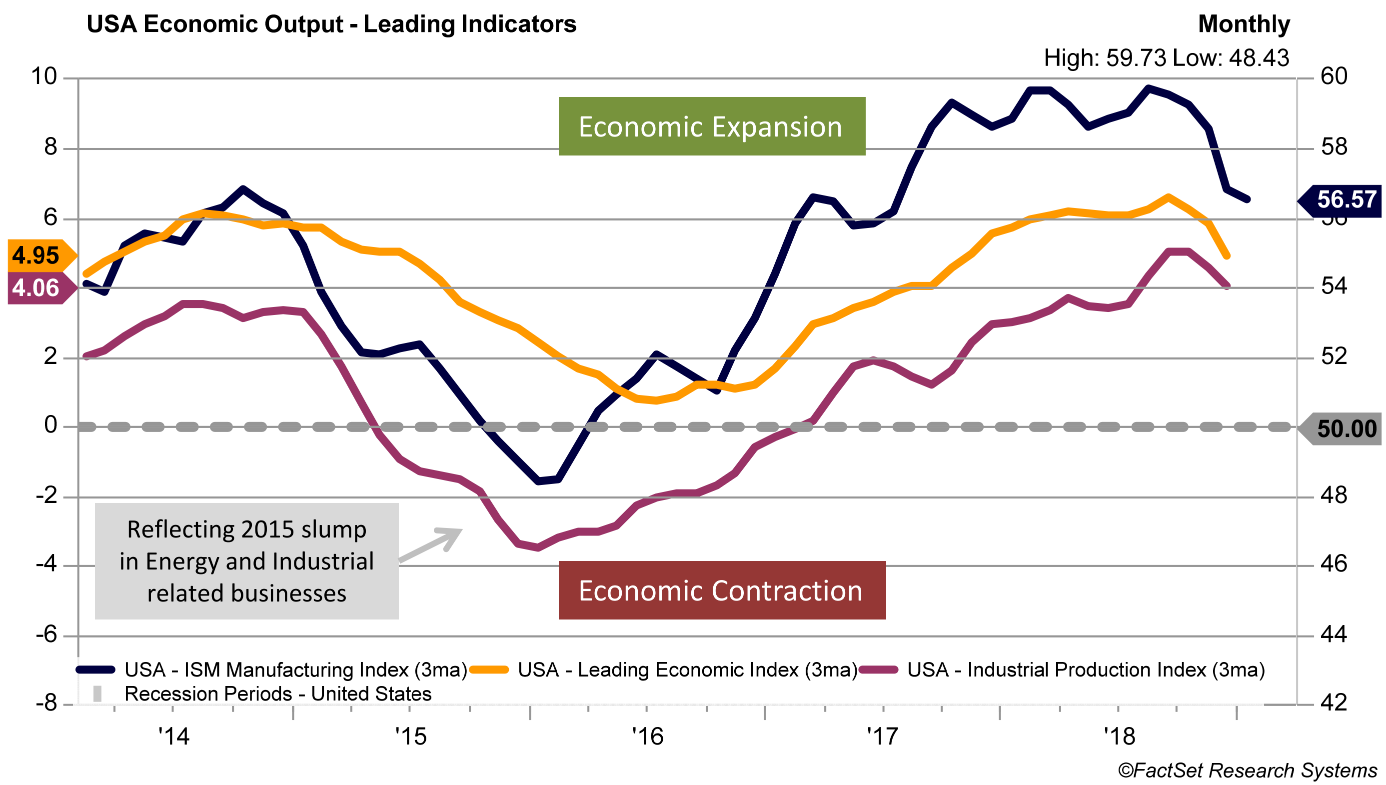
Observation #2
Economy Slowing, Not Collapsing

- A stock market decline of -10% (market correction) often occurs when "stock prices get ahead of themselves", and require economic growth and profits to catch-up.
- A stock market decline of -20% (bear market) usually occurs when economic conditions are collapsing and profits are expected to follow.
- Having experienced above average growth in recent quarters, the US economy is expected to slow toward its long-term sustainable trend. Few, if any, economists are expecting the US economy to collapse.



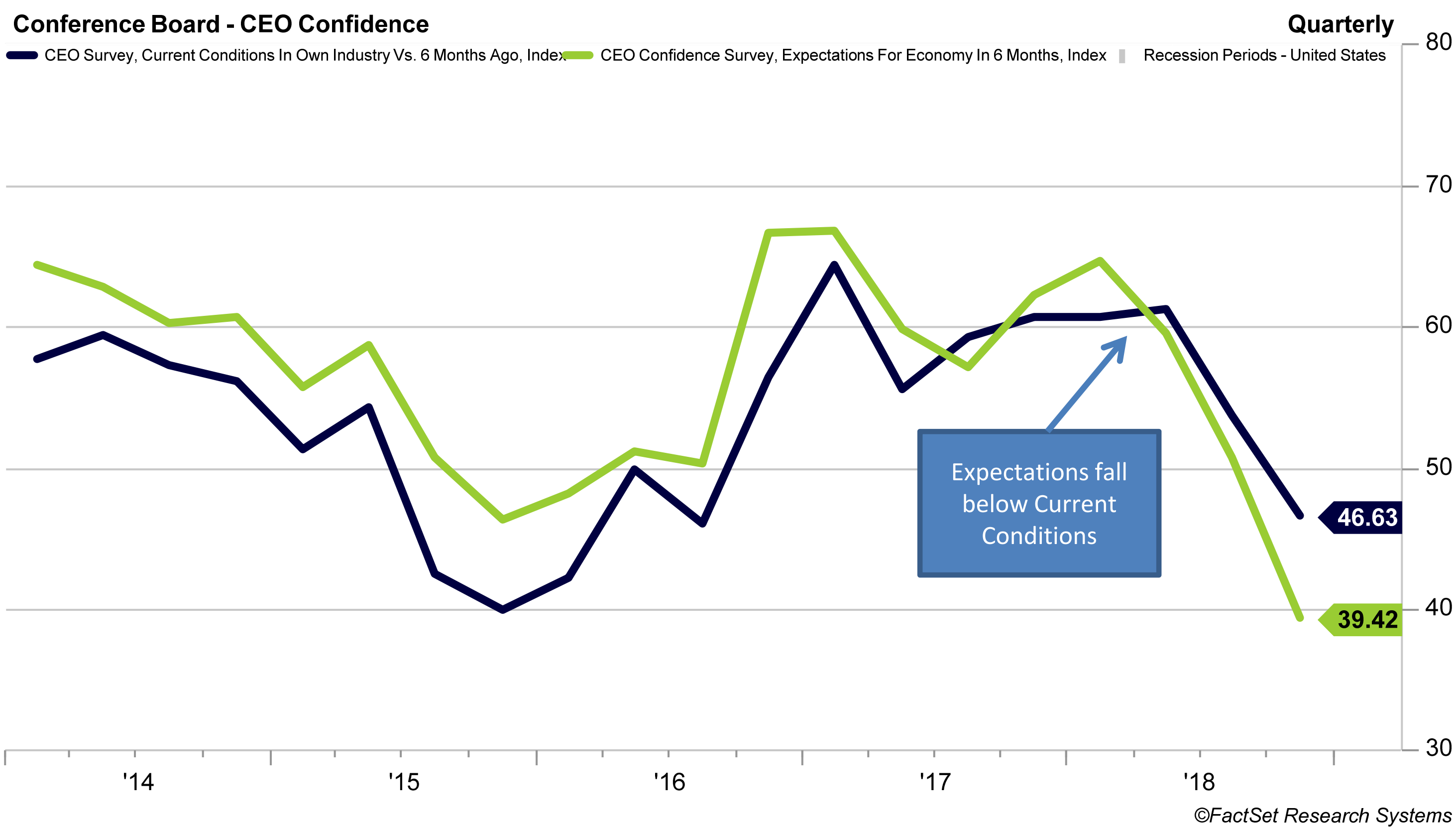
Observation #2
Economy Slowing, Not Collapsing

- Certain measures of economic activity have been good leading indicators for where growth may be headed.
- For example, in 2015, the ISM Manufacturing Index (blue line) and the Industrial Production Index (purple line) illuminated the economic slump associated with the rapid deterioration of energy prices.
- All three leading indicators have come off their highs in recent months, but remain well above the break-even levels that separate economic "expansion" from "contraction". These indicators suggest that the US economy is slowing, but they do not point to an imminent collapse.



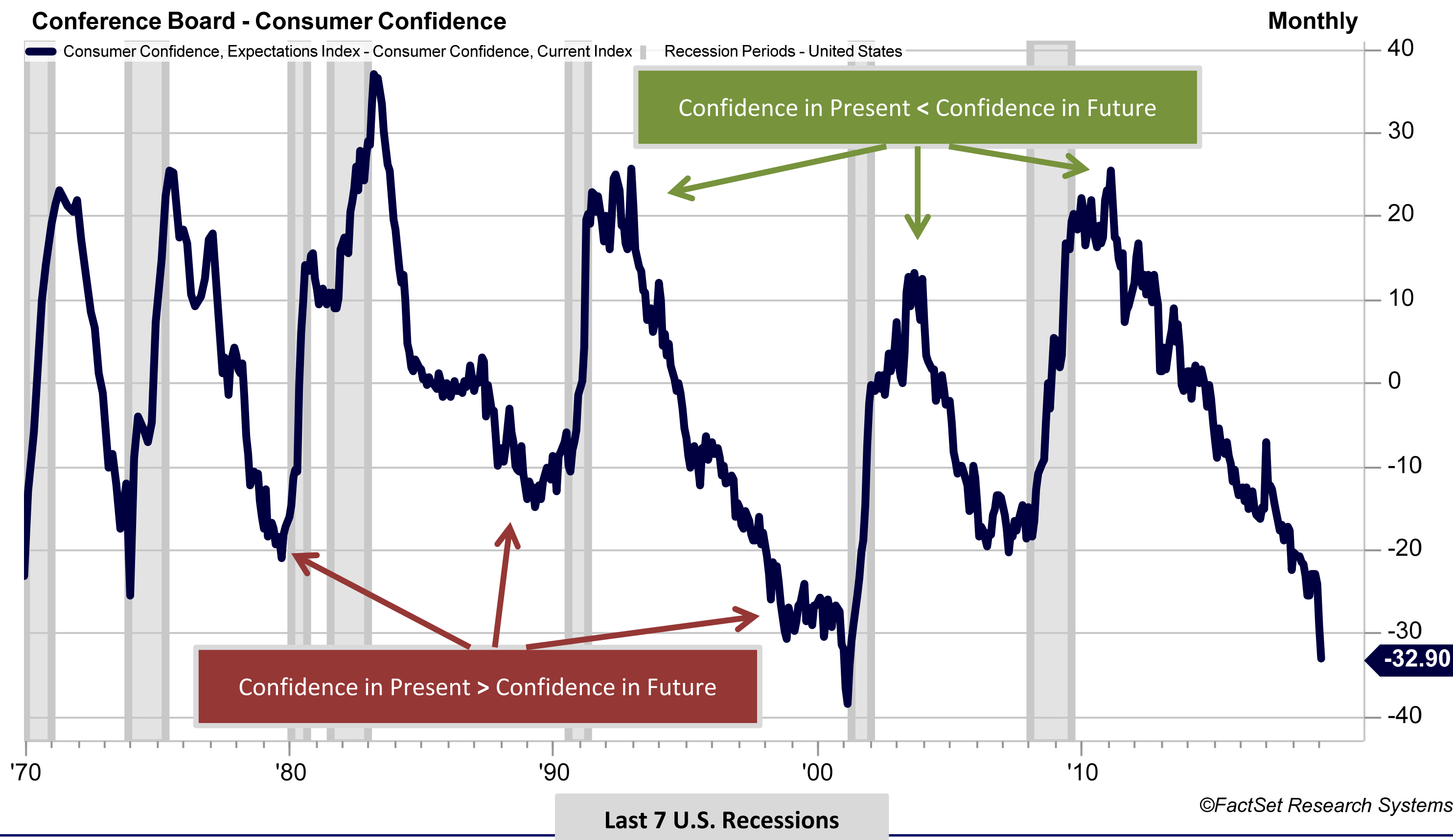
Observation #3
US Confidence offers Cautionary Signals

- Confidence can be a very volatile emotion, making its use as an indicator less reliable. However, the subtleties around confidence can offer important insight, in particular from those closest to business conditions.
- C-suites make important capital investment decisions, their confidence can have direct economic impact.
- It is noteworthy, in the past two quarterly surveys, that CEO confidence in the future (green line) has fallen below the confidence that they have in the present conditions (blue line), a rare occurrence.



Observation #3
US Confidence offers Cautionary Signals

- Consumer confidence is often considered a <u>lagging</u> indicator, in part because jobs are usually cut and paychecks lost as a result of a downturn having already occurred.
- However, viewing confidence in relative terms may be more insightful for the observer. The spread between how a consumer feels about the future versus the present tends to be greatest at the beginning of the business cycle, and lowest near its conclusion.



Observation #4
International Slowdown is More Pronounced

- The strength of manufacturing activity can be a very valuable <u>leading</u> indicator of economic direction, and the data suggests that the synchronized global growth story that peaked (yellow boxes) in early 2018 has faded.
- Europe (*) has experienced the sharpest reversal, from record levels of activity to the precipice of contraction. It highlights the Continents heavy reliance on export trade. Italy has officially entered a Recession.

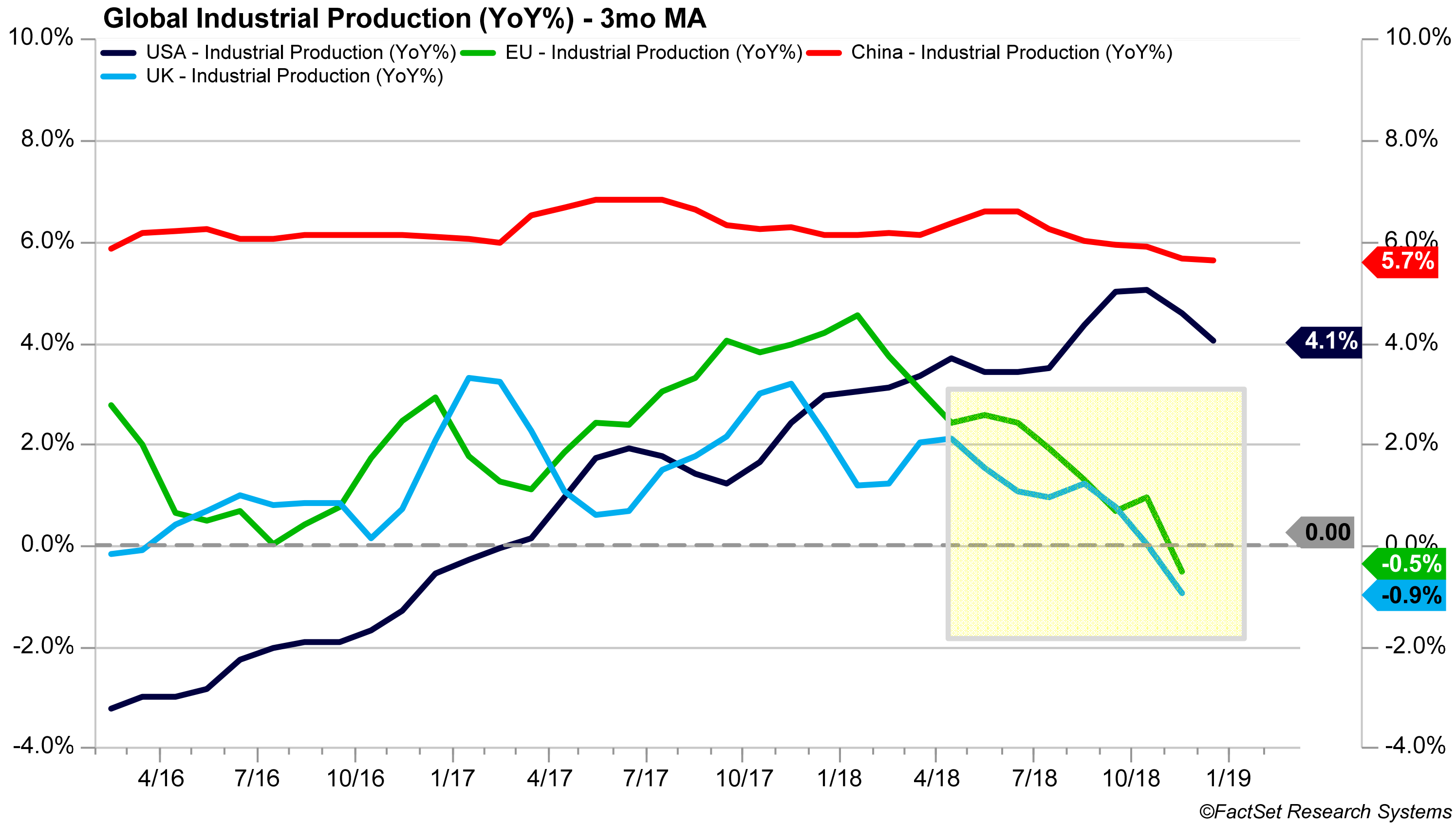
GLOBAL PURCHASING MANAGERS INDEX (PMI) FOR MANUFACTURING

	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
World	52.9	52.8	52.6	52.5	52.5	52.6	53.1	53.2	53.4	53.9	54.4	54.3	54.1	53.2	53.4	53.0	52.9	52.7	52.5	52.1	52.0	51.9	51.4	50.7
Developed	54.1	53.9	54.1	54.1	53.8	53.9	54.2	54.6	55.2	55.8	56.2	56.3	55.7	54.8	55.1	54.7	54.4	54.0	53.8	53.6	53.2	52.8	52.3	51.8
Emerging	51.3	51.5	50.9	50.5	50.8	50.9	51.7	51.3	51.2	51.6	52.1	51.9	51.9	51.3	51.3	51.1	51.2	51.0	50.8	50.3	50.5	50.7	50.3	49.5
USA	54.2	53.3	52.8	52.7	52.0	53.3	52.8	53.1	54.6	53.9	55.1	55.5	55.3	55.6	56.5	56.4	55.4	55.3	54.7	55.6	55.7	55.3	53.8	54.9
UK	54.6	54.1	57.8	56.5	54.3	55.5	57.0	55.5	56.6	58.2	55.6	55.2	54.9	54.9	53.9	54.3	54.2	53.9	53.0	53.7	51.1	53.4	54.2	52.8
Canada	54.7	55.5	55.9	55.1	54.7	55.5	54.6	55.0	54.3	54.4	54.7	55.9	55.6	55.7	55.5	56.2	57.1	56.9	56.8	54.8	53.9	54.9	53.6	53.0
Australia	59.3	57.5	59.2	54.8	55.0	56.0	59.8	54.2	51.1	57.3	56.2	58.7	57.5	63.1	58.3	57.5	57.4	52.0	56.7	59.0	58.3	51.3	49.5	52.5
* Euro Zone *	55.4	56.2	56.7	57.0	57.4	56.6	57.4	58.1	58.5	60.1	60.6	59.6	58.6	56.6	56.2	55.5	54.9	55.1	54.6	53.2	52.0	51.8	51.4	50.5
Germany	56.8	58.3	58.2	59.5	59.6	58.1	59.3	60.6	60.6	62.5	63.3	61.1	60.6	58.2	58.1	56.9	55.9	56.9	55.9	53.7	52.2	51.8	51.5	49.7
Italy	55.0	55.7	56.2	55.1	55.2	55.1	56.3	56.3	57.8	58.3	57.4	59.0	56.8	55.1	53.5	52.7	53.3	51.5	50.1	50.0	49.2	48.6	49.2	47.8
France	52.2	53.3	55.1	53.8	54.8	54.9	55.8	56.1	56.1	57.7	58.8	58.4	55.9	53.7	53.8	54.4	52.5	53.3	53.5	52.5	51.2	50.8	49.7	51.2
Ireland	53.8	53.6	55.0	55.9	56.0	54.6	56.1	55.4	54.4	58.1	59.1	57.6	56.2	54.1	55.3	55.4	56.6	56.3	57.5	56.3	54.9	55.4	54.5	52.6
Greece	47.7	46.7	48.2	49.6	50.5	50.5	52.2	52.8	52.1	52.2	53.1	55.2	56.1	55.0	52.9	54.2	53.5	53.5	53.9	53.6	53.1	54.0	53.8	53.7
Spain	54.8	53.9	54.5	55.4	54.7	54.0	52.4	54.3	55.8	56.1	55.8	55.2	56.0	54.8	54.4	53.4	53.4	52.9	53.0	51.4	51.8	52.6	51.1	52.4
China	51.7	51.2	50.3	49.6	50.4	51.1	51.6	51.0	51.0	50.8	51.5	51.5	51.6	51.0	51.1	51.1	51.0	50.8	50.6	50.0	50.1	50.2	49.7	48.3
India	50.7	52.5	52.5	51.6	50.9	47.9	51.2	51.2	50.3	52.6	54.7	52.4	52.1	51.0	51.6	51.2	53.1	52.3	51.7	52.2	53.1	54.0	53.2	53.9
Japan	53.3	52.4	52.7	53.1	52.4	52.1	52.2	52.9	52.8	53.6	54.0	54.8	54.1	53.1	53.8	52.8	53.0	52.3	52.5	52.5	52.9	52.2	52.6	50.3
South Korea	49.2	48.4	49.4	49.2	50.1	49.1	49.9	50.6	50.2	51.2	49.9	50.7	50.3	49.1	48.4	48.9	49.8	48.3	49.9	51.3	51.0	48.6	49.8	48.3
Taiwan	54.5	56.2	54.4	53.1	53.3	53.6	54.3	54.2	53.6	56.3	56.6	56.9	56.0	55.3	54.8	53.4	54.5	53.1	53.0	50.8	48.7	48.4	47.7	47.5
Indonesia	49.3	50.5	51.2	50.5	49.5	48.6	50.7	50.4	50.1	50.4	49.3	49.9	51.4	50.7	51.6	51.7	50.3	50.5	51.9	50.7	50.5	50.4	51.2	49.9
Russia	52.5	52.4	50.8	52.4	50.3	52.7	51.6	51.9	51.1	51.5	52.0	52.1	50.2	50.6	51.3	49.8	49.5	48.1	48.9	50.0	51.3	52.6	51.7	50.9
Brazil	46.9	49.6	50.1	52.0	50.5	50.0	50.9	50.9	51.2	53.5	52.4	51.2	53.2	53.4	52.3	50.7	49.8	50.5	51.1	50.9	51.1	52.7	52.6	52.7
Mexico	50.6	51.5	50.7	51.2	52.3	51.2	52.2	52.8	49.2	52.4	51.7	52.6	51.6	52.4	51.6	51.0	52.1	52.1	50.7	51.7	50.7	49.7	49.7	50.9

Heat Map = Monthly manufacturing PMI activity indices (Markit Economics)
Green = readings above 50 are indicative of manufacturing activity expanding
Red = readings below 50 are indicative of manufacturing activity contracting
Yellow = highest reading for that country during the 2 year time period

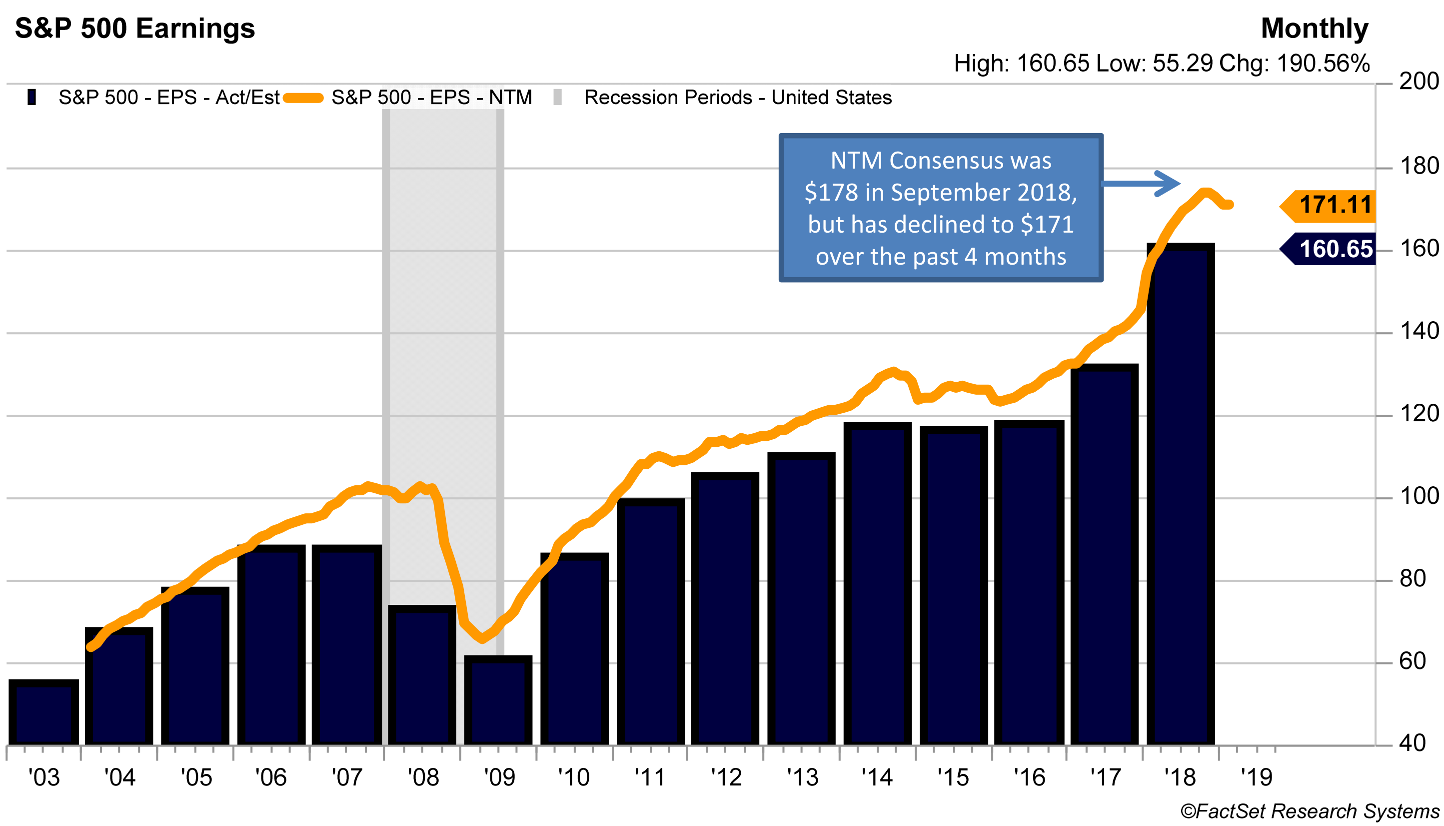
Observation #4
International Slowdown is More Pronounced

- The persistent slowdown in Europe, from early 2018, can be observed within the Industrial Production measures of the Eurozone (light green) and the United Kingdom (light blue) that have now turned negative.
- The monetary and fiscal policy tools that Europe may have traditionally used to stimulate activity, are either extremely depleted (ECB negative interest rate policy) or very fragile (rising populism & Brexit), making Europe's path to a renewed economic growth trajectory particularly compromised.



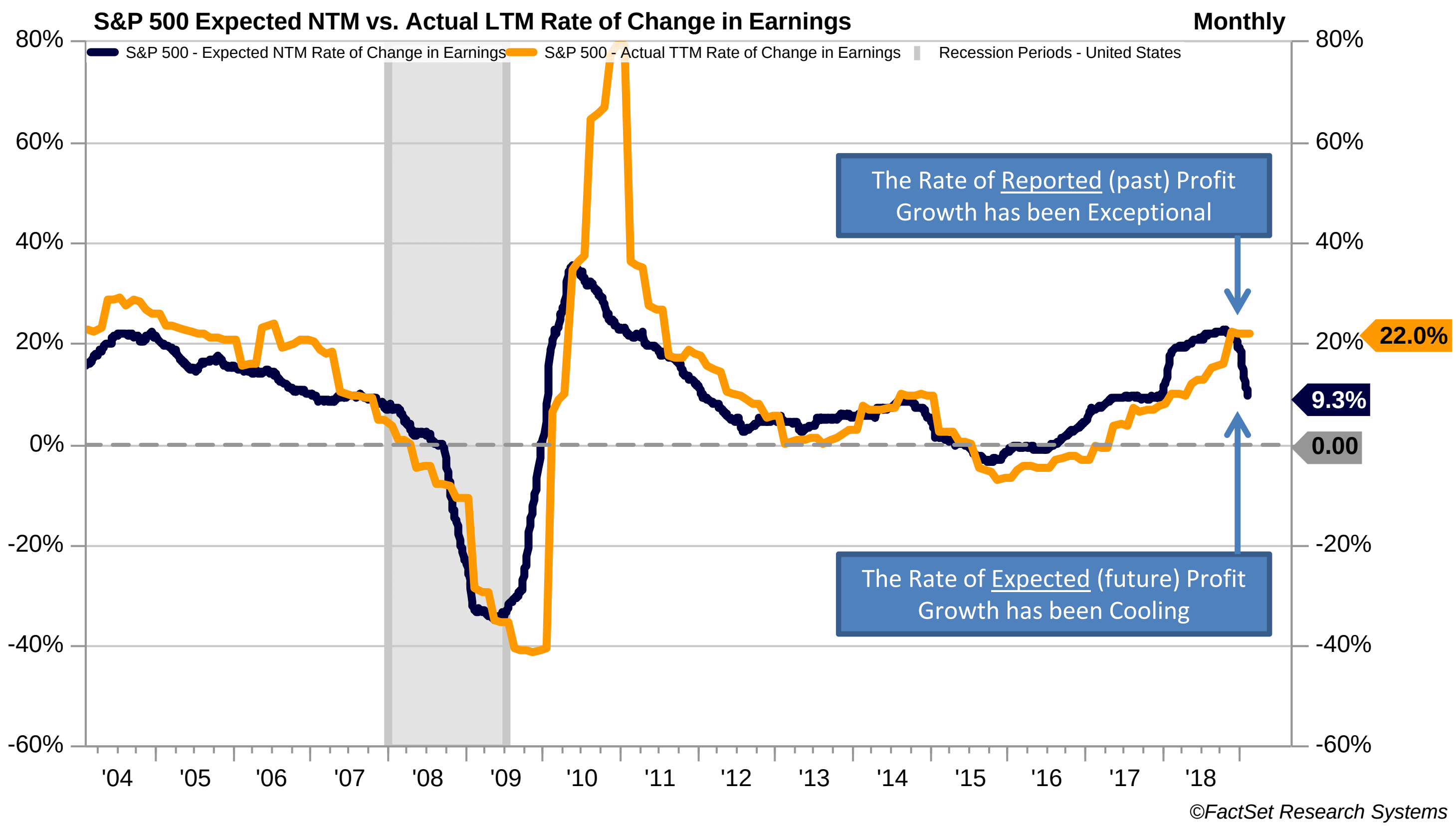
Observation #5
Slowing Growth = Slowing Profits

- Fractures within the synchronized global growth story and a recognition that the U.S. growth trajectory is cooling, have combined to erode the confidence in profit expectations (gold line) from $178 to a current $171.
- It should not be surprising that the rate of earnings growth experienced in 2018 will not be matched in 2019. **It is the uncertainty around profit growth that causes the anxiety that sweeps across markets**. Once expectations are recalibrated to a more reasonable path for profits, stocks are able to regain their footing.



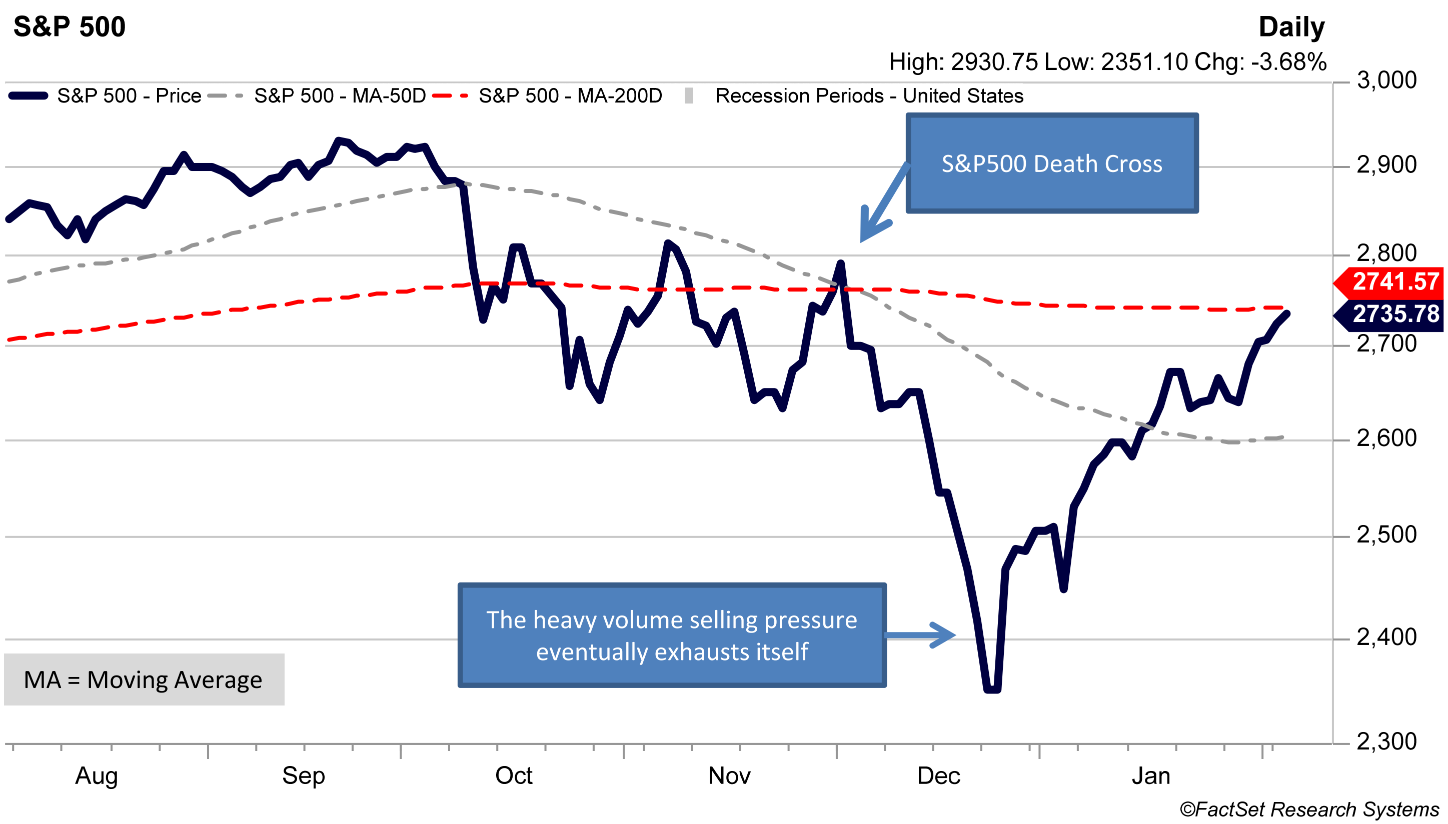
Observation #5
Slowing Growth = Slowing Profits

- Markets are constantly measuring the actual rate of profit growth (gold line) against previous expectations and establishing an updated view of the future.
- As investors observe decelerating economic conditions, the expected rate of profit growth (blue line) rightly declines. If profits grow at the currently expected rate of 9% in 2019, stocks are likely to do just fine. If, on the other hand, economic pressures build further and lead to profit erosion, stocks are more likely to struggle.



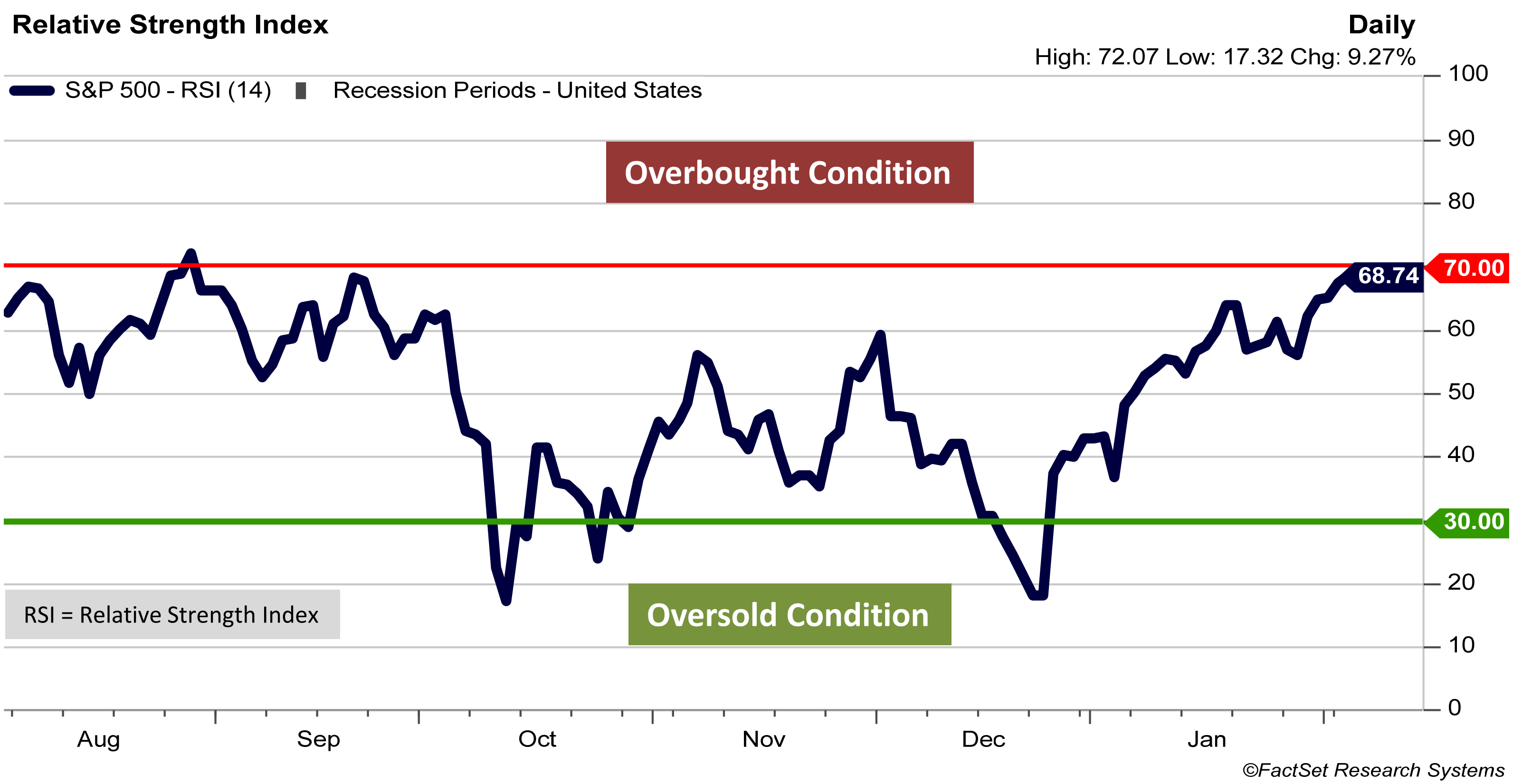
Observation #6
When Sentiment Becomes Technical

- There are periods of time when near term sentiment and technical factors exacerbate market moves, both above and below fundamentally based valuations.
- The -14.8% decline of the S&P500 from December 1st thru Christmas Eve, was preceded by the “Death Cross”, a technical indicator that occurs when the 50 day MA (gray line) crosses below the 200 day MA (red line).



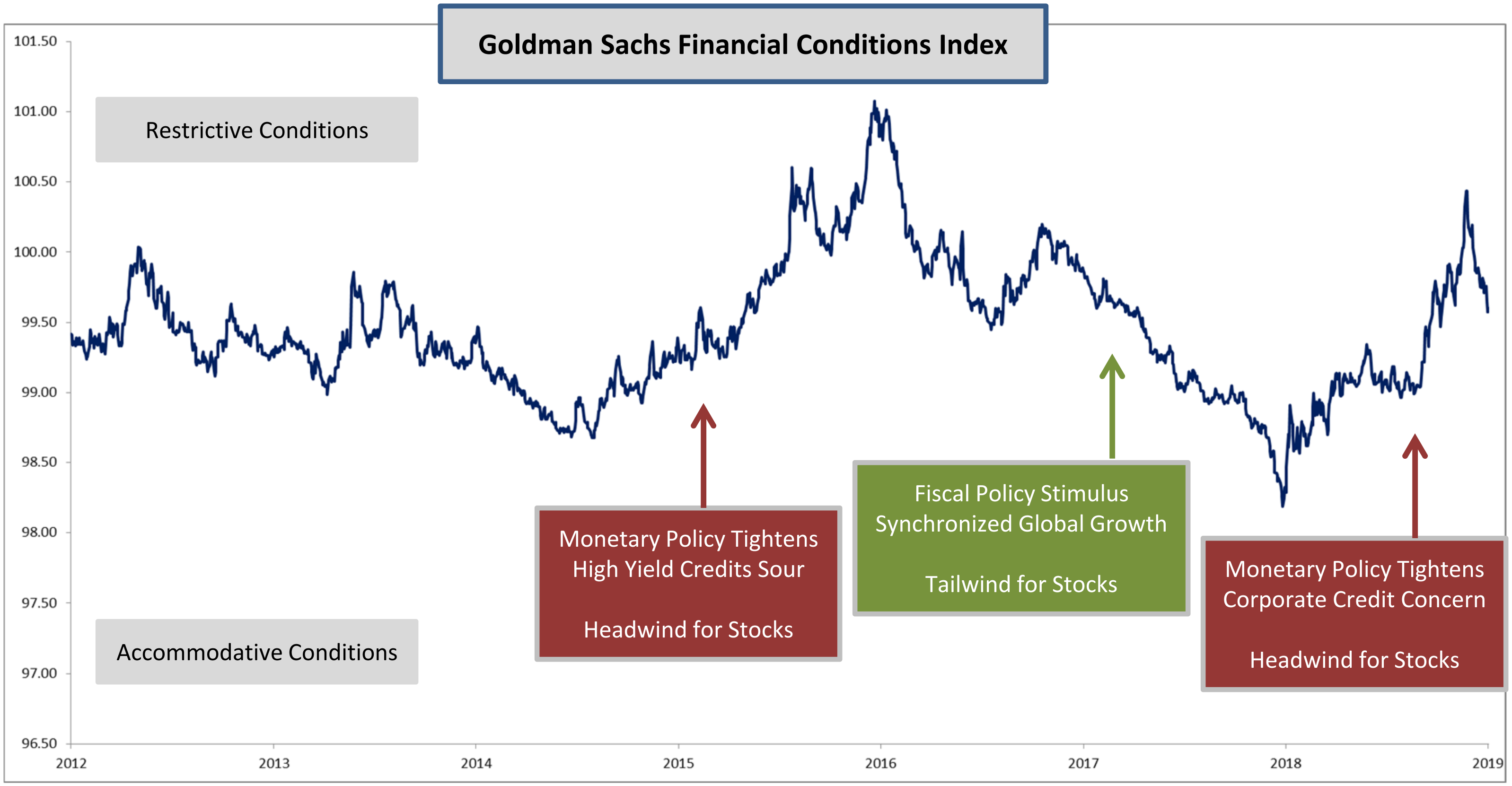
Observation #6
When Sentiment Becomes Technical

- We prefer to rely on fundamental analysis and valuation metrics for assessing a long-term investment opportunity, but observing various technical indicators may provide valuable near-term entry and exit signals.
- Unfortunately, the average investor gets caught in the Emotional Pendulum, swinging between moments of optimism and greed across to pessimism and fear. The power of emotion often results in the average investor buying high (red line) and selling low (green line).



Observation #7
Financial Conditions Support A Cautious Tone

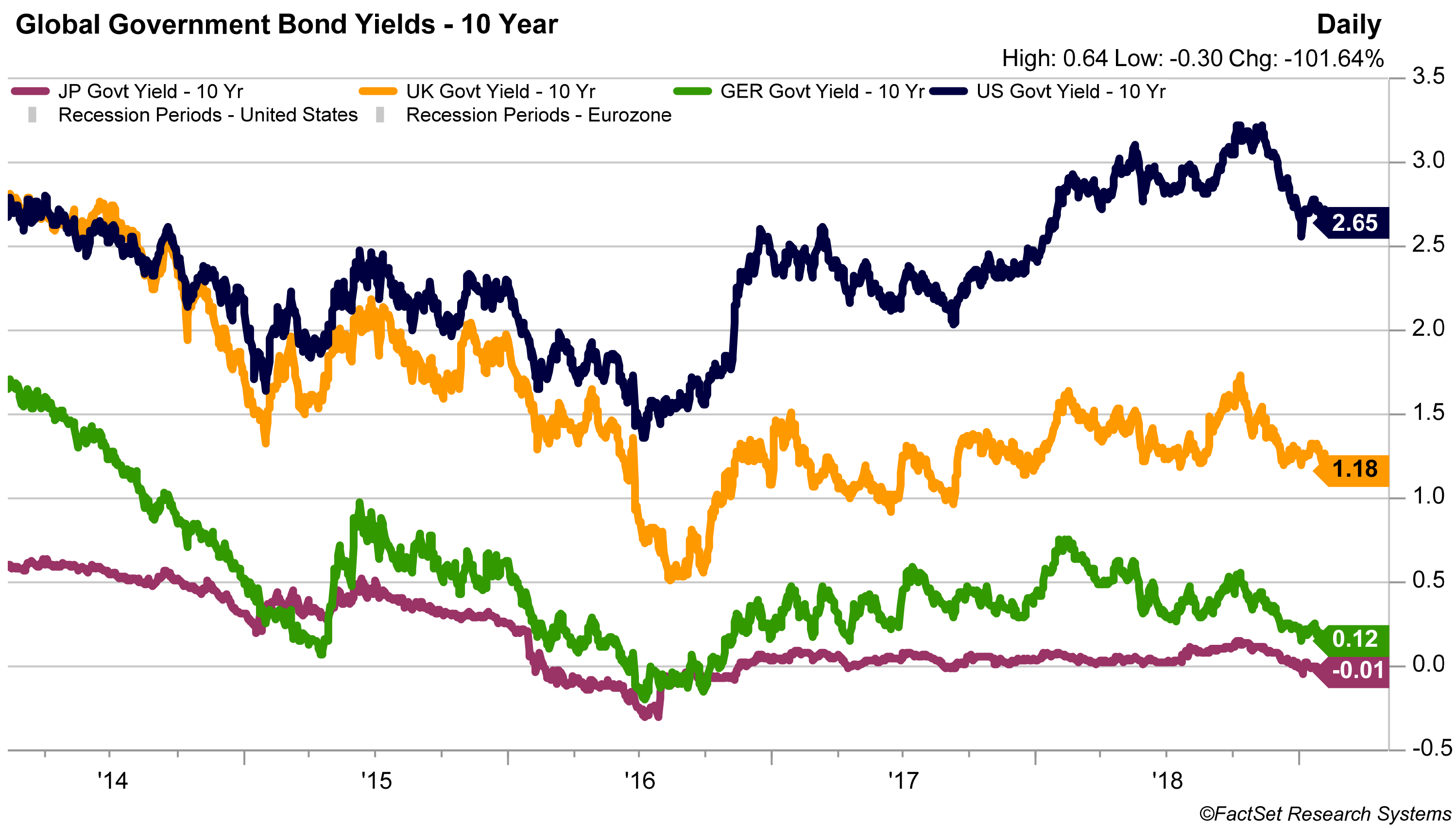
- Economies depend on the flow of capital to support economic activity. When it is cheap and available, capital can stimulate growth, but when it is expensive and restricted the lack of capital flow can result in stagnation.
- The ease by which capital is flowing through an economy is captured by a variety of Financial Conditions measurements which can serve to highlight the headwinds and tailwinds that are prevailing.



Source: Goldman Sachs

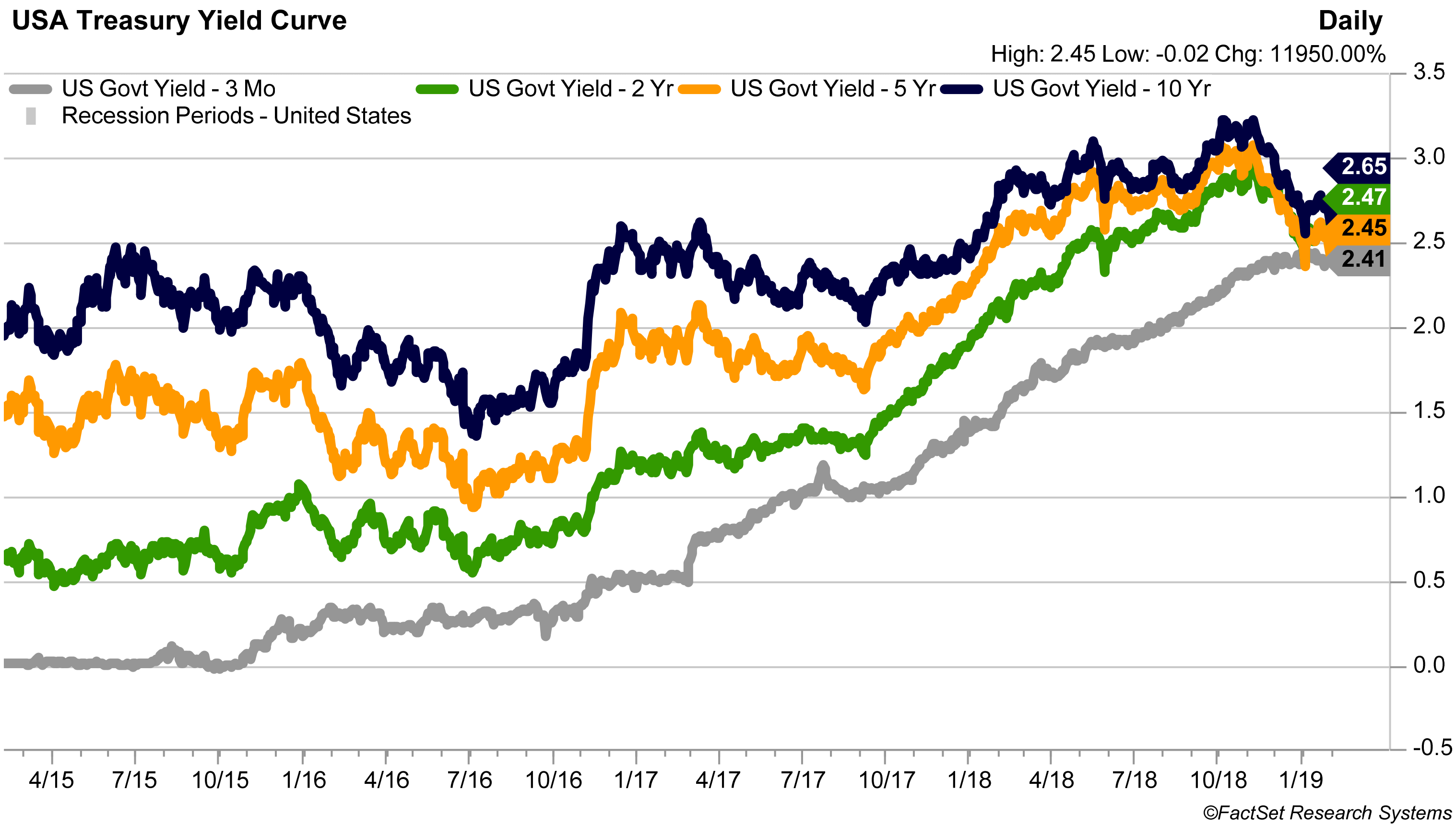
Observation #7
Financial Conditions Support A Cautious Tone

- While stock markets have rallied from their December low's, yields across key global government bond issues have failed to reverse their declines, a sign that bond investors may be cautious on growth.
- One only needs to observe the paltry 0.12% yield on 10 Year German Bunds to recognize the economic growth challenge that faces many on the European Continent.



Observation #8
Fed Rate Cycle Looks Complete

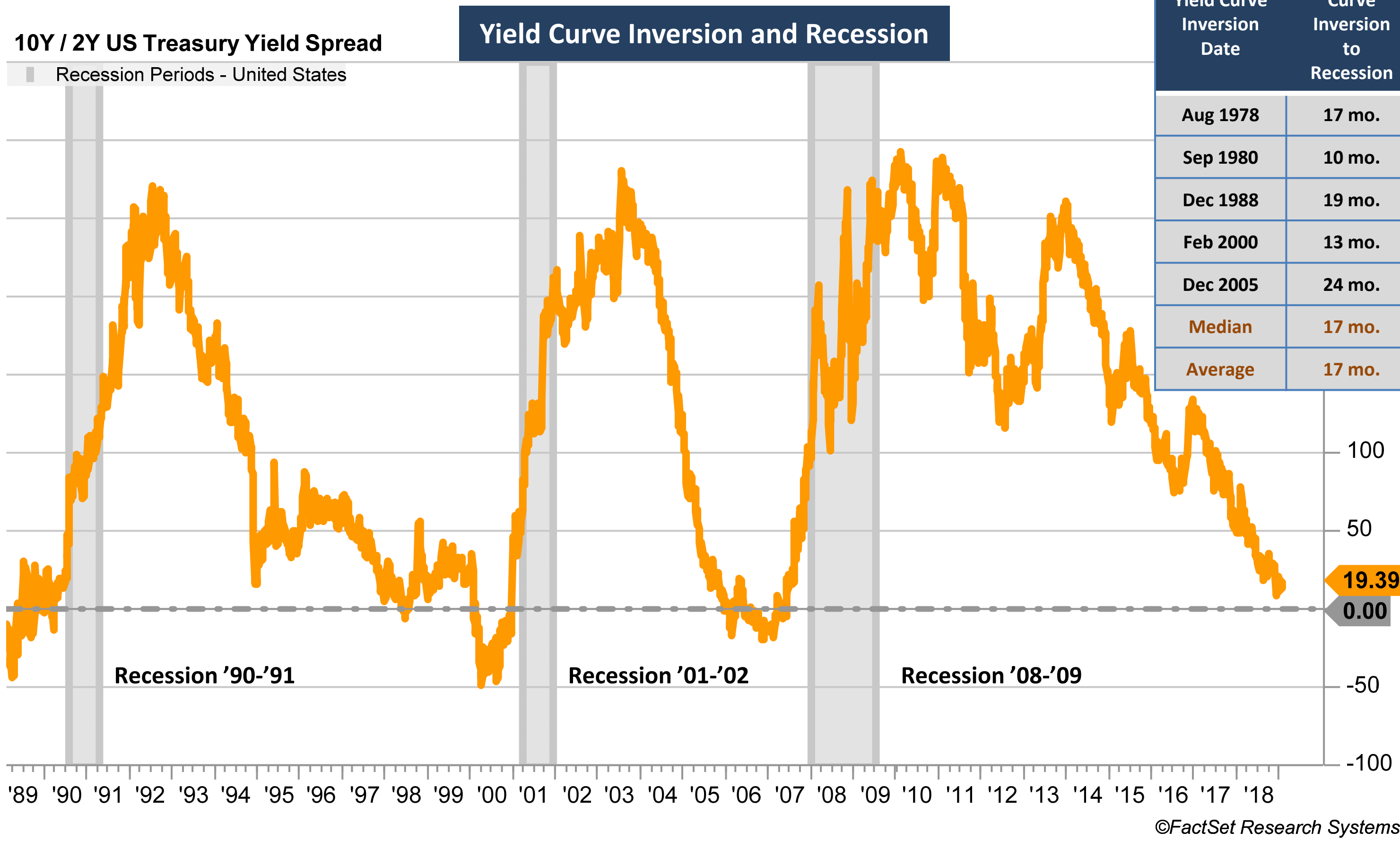
- Despite the desire of Central Bankers to "normalize" interest rates, the bond market is the ultimate authority on the structure of rates, establishing yields along the curve that reflect the outlook for growth and inflation.
- While the Federal Reserve has increased interest rates on the very shortest maturing instruments, the bond market has moved yields on longer maturing US Treasury Notes only marginally higher, a signal that investors may be wary of economic growth and have very little concern about inflation.



Observation #8
Fed Rate Cycle Looks Complete

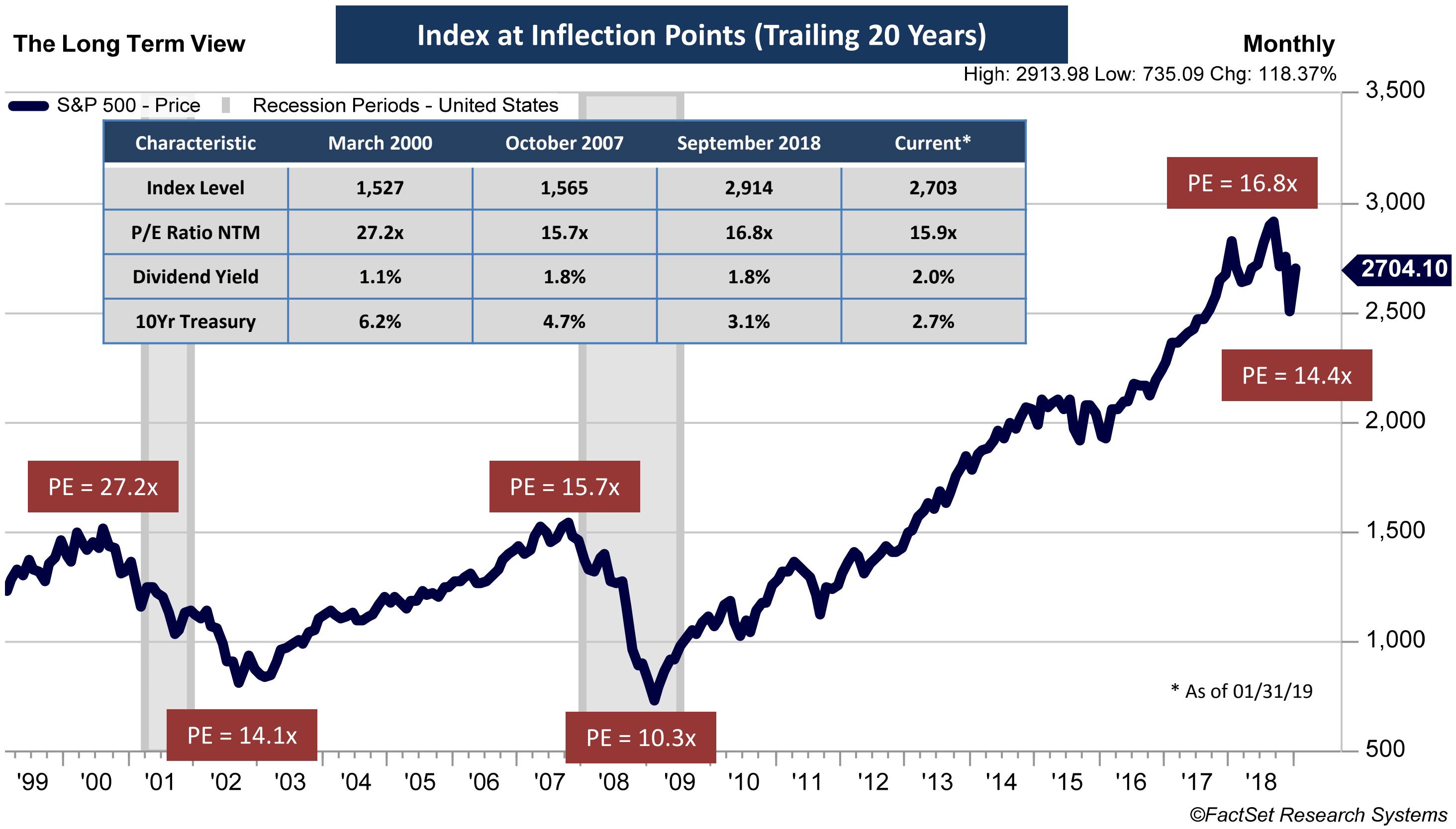
- Whenever Central Banks are raising short term interest rates, investors must evaluate the impact that higher rates may have on future economic growth, price stability and the path for corporate profits.
- Yield curve flattening is typical within a maturing business cycle, and is a warning from investors to Central Banker's that monetary policy may be placing too much pressure on economic and financial conditions.

Yield Curve Inversion Date	Curve Inversion to Recession	Curve Inversion to S&P 500 Peak
Aug 1978	17 mo.	17 mo.
Sep 1980	10 mo.	2 mo.
Dec 1988	19 mo.	17 mo.
Feb 2000	13 mo.	6 mo.
Dec 2005	24 mo.	22 mo.
Median	17 mo.	17 mo.
Average	17 mo.	13 mo.



Observation #9
Buying Stocks For The Long-Term

- The S&P500 (blue line) has experienced a tremendous bull market since achieving its cycle low on March 9th, 2009. Despite recent volatility, the cumulative return of the index remains near 300%.
- Some observers may postulate that price appreciation of that magnitude is indicative of an expensive market. But price alone tells us very little about the value of stocks. Investors must consider the level of profits, dividends and interest rates, among other factors that help to illuminate a markets valuation.

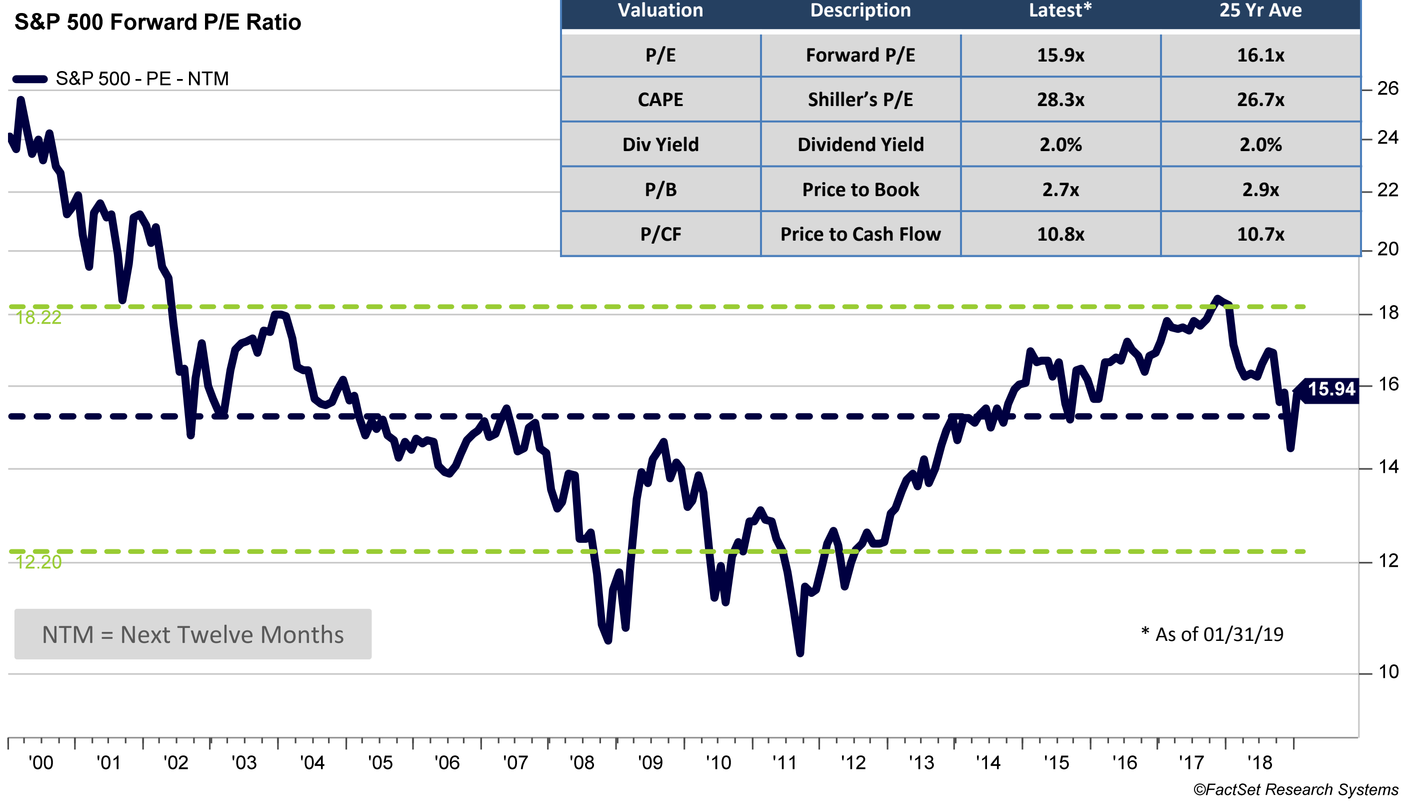


Characteristic	March 2000	October 2007	September 2018	Current*
Index Level	1,527	1,565	2,914	2,703
P/E Ratio NTM	27.2x	15.7x	16.8x	15.9x
Dividend Yield	1.1%	1.8%	1.8%	2.0%
10Yr Treasury	6.2%	4.7%	3.1%	2.7%

* As of 01/31/19

Observation #9
Buying Stocks For The Long-Term

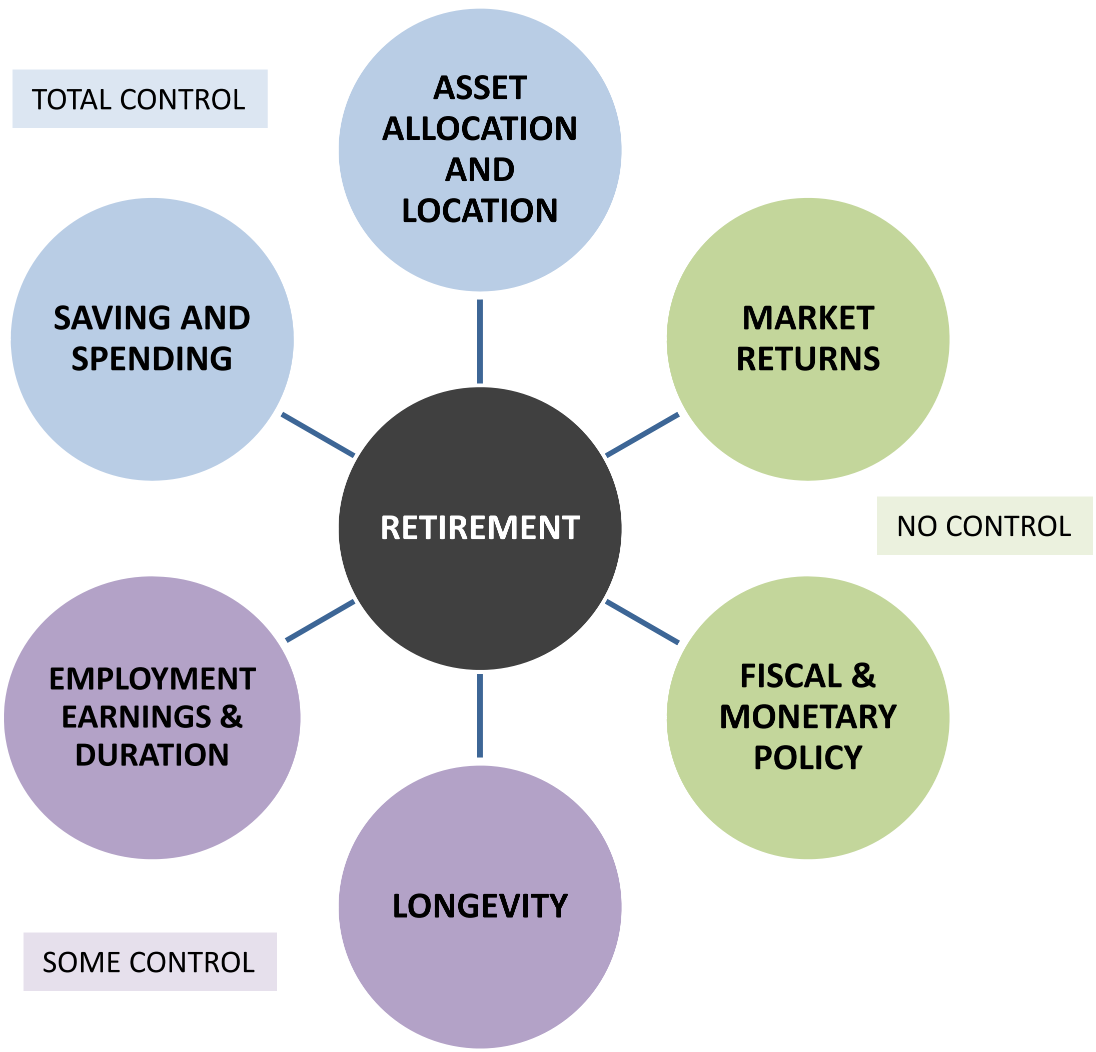
- Stock prices almost always follow the general direction of corporate profit expectations – lower when profits are expected to decline, higher when profits are expected to expand.
- Whether stocks are expensive or not, requires an opinion regarding the consensus expectation of future profits. If we believe that the current S&P500 estimate for $171 NTM earnings is fair, then by historical standards buying stocks for the long-term at current prices appears reasonable….not cheap, but not overly expensive either.



Valuation	Description	Latest*	25 Yr Ave
P/E	Forward P/E	15.9x	16.1x
CAPE	Shiller's P/E	28.3x	26.7x
Div Yield	Dividend Yield	2.0%	2.0%
P/B	Price to Book	2.7x	2.9x
P/CF	Price to Cash Flow	10.8x	10.7x

* As of 01/31/19

Observation #10
The Most Important Decision - Asset Allocation



A SOUND RETIREMENT PLAN

Investors can choose to evaluate many factors as they prepare their portfolios for retirement, but most are out of their control. Investors are best served when they focus on the factors that offer total control.

JP Morgan Asset Management "Guide to Retirement"

The Strategic Risk Profile Quilt

Annual Returns for Key Indices Ranked in Order of Performance (1999-2018)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	20Y CAGR
MSCI EM 67.1%	Bloomberg Commodity 24.2%	HFRX Hedge Fund 8.7%	Bloomberg Commodity 23.9%	MSCI EM 55.8%	MSCI EM 26.0%	MSCI EM 34.3%	MSCI EM 32.5%	MSCI EM 39.7%	Barclays U.S. Agg 5.2%	MSCI EM 78.9%	Russell 2000 26.8%	Barclays U.S. Municipal 10.7%	MSCI EM 18.6%	Russell 2000 38.8%	S&P 500 13.7%	Barclays U.S. Municipal 3.3%	Russell 2000 21.3%	MSCI EM 37.8%	Barclays U.S. Municipal 1.3%	MSCI EM 8.8%
MSCI EAFE 27.8%	HFRX Hedge Fund 14.3%	Barclays U.S. Agg 8.4%	Barclays U.S. Agg 10.3%	Russell 2000 47.3%	MSCI EAFE 20.8%	Bloomberg Commodity 17.5%	MSCI EAFE 27.0%	MSCI EAFE 11.7%	Barclays U.S. Municipal -2.5%	Barclays U.S. High Yield 58.2%	MSCI EM 19.2%	Barclays U.S. Agg 7.8%	MSCI EAFE 18.0%	S&P 500 32.4%	Barclays U.S. Municipal 9.1%	S&P 500 1.4%	Barclays U.S. High Yield 17.1%	MSCI EAFE 25.7%	Barclays U.S. Agg 0.0%	Russell 2000 7.4%
HFRX Hedge Fund 26.7%	Barclays U.S. Municipal 11.7%	Barclays U.S. High Yield 5.3%	Barclays U.S. Municipal 9.6%	MSCI EAFE 39.3%	Russell 2000 18.3%	MSCI EAFE 14.1%	Russell 2000 18.3%	Bloomberg Commodity 11.1%	RP4 -21.2%	MSCI EAFE 32.6%	Bloomberg Commodity 16.7%	Barclays U.S. High Yield 5.0%	Russell 2000 16.4%	MSCI EAFE 23.4%	Barclays U.S. Agg 6.0%	Barclays U.S. Agg 0.5%	S&P 500 12.0%	S&P 500 21.8%	Barclays U.S. High Yield -2.1%	Barclays U.S. High Yield 6.6%
Russell 2000 21.3%	Barclays U.S. Agg 11.6%	Barclays U.S. Municipal 5.1%	HFRX Hedge Fund 4.7%	Barclays U.S. High Yield 29.0%	Barclays U.S. High Yield 11.1%	RP3 7.9%	S&P 500 15.8%	RP3 9.9%	HFRX Hedge Fund -23.3%	Russell 2000 27.1%	Barclays U.S. High Yield 15.1%	S&P 500 2.1%	S&P 500 16.0%	RP3 13.9%	Russell 2000 4.9%	MSCI EAFE -0.3%	MSCI EM 11.8%	RP3 16.3%	S&P 500 -4.4%	S&P 500 5.6%
S&P 500 21.0%	RP4 -0.2%	Russell 2000 2.5%	Barclays U.S. High Yield -1.4%	S&P 500 28.7%	RP3 11.0%	RP4 6.6%	RP3 15.0%	RP4 9.2%	Barclays U.S. High Yield -26.2%	S&P 500 26.4%	S&P 500 15.1%	RP4 -1.2%	Barclays U.S. High Yield 15.8%	RP4 10.1%	RP3 4.8%	RP4 -0.6%	Bloomberg Commodity 11.4%	Russell 2000 14.6%	RP4 -4.6%	RP3 5.0%
RP3 18.8%	Russell 2000 -3.1%	MSCI EM -2.4%	RP4 -4.2%	RP3 22.9%	S&P 500 10.9%	S&P 500 4.9%	RP4 12.4%	Barclays U.S. Agg 7.0%	RP3 -28.0%	RP3 24.3%	RP3 11.1%	RP3 -3.1%	RP3 11.8%	Barclays U.S. High Yield 7.4%	RP4 4.7%	RP3 -1.0%	RP3 6.1%	RP4 12.9%	RP3 -6.1%	RP4 4.8%
Bloomberg Commodity 18.6%	RP3 -3.9%	RP4 -2.7%	MSCI EM -5.9%	Bloomberg Commodity 22.7%	RP4 9.1%	Russell 2000 4.5%	Barclays U.S. High Yield 11.8%	S&P 500 5.6%	Russell 2000 -33.8%	RP4 19.6%	RP4 9.9%	Russell 2000 -4.2%	RP4 9.8%	HFRX Hedge Fund 6.7%	Barclays U.S. High Yield 2.5%	HFRX Hedge Fund -3.6%	RP4 5.2%	Barclays U.S. High Yield 7.5%	HFRX Hedge Fund -6.7%	Barclays U.S. Municipal 4.6%
RP4 14.7%	Barclays U.S. High Yield -5.9%	RP3 -6.3%	RP3 -8.4%	RP4 18.1%	Bloomberg Commodity 7.6%	Barclays U.S. Municipal 3.5%	HFRX Hedge Fund 9.3%	HFRX Hedge Fund 4.2%	Bloomberg Commodity -36.6%	Bloomberg Commodity 18.7%	MSCI EAFE 8.3%	HFRX Hedge Fund -8.9%	Barclays U.S. Municipal 6.8%	Barclays U.S. Agg -2.0%	HFRX Hedge Fund -0.6%	Russell 2000 -4.4%	Barclays U.S. Agg 2.6%	HFRX Hedge Fund 6.0%	Russell 2000 -11.0%	Barclays U.S. Agg 4.5%
Barclays U.S. High Yield 2.4%	S&P 500 -9.1%	S&P 500 -11.9%	MSCI EAFE -15.6%	HFRX Hedge Fund 13.4%	Barclays U.S. Municipal 4.5%	Barclays U.S. High Yield 2.7%	Barclays U.S. Municipal 4.8%	Barclays U.S. Municipal 3.4%	S&P 500 -37.0%	HFRX Hedge Fund 13.4%	Barclays U.S. Agg 6.5%	MSCI EAFE -11.7%	Barclays U.S. Agg 4.2%	MSCI EM -2.3%	MSCI EM -2.0%	Barclays U.S. High Yield -4.5%	HFRX Hedge Fund 2.5%	Barclays U.S. Municipal 5.4%	Bloomberg Commodity -13.0%	MSCI EAFE 4.1%
Barclays U.S. Agg -0.8%	MSCI EAFE -13.8%	MSCI EAFE -21.0%	Russell 2000 -20.5%	Barclays U.S. Municipal 5.3%	Barclays U.S. Agg 4.3%	HFRX Hedge Fund 2.7%	Barclays U.S. Agg 4.3%	Barclays U.S. High Yield 1.9%	MSCI EAFE -43.0%	Barclays U.S. Municipal 12.9%	HFRX Hedge Fund 5.2%	Bloomberg Commodity -13.4%	HFRX Hedge Fund 3.5%	Barclays U.S. Municipal -2.6%	MSCI EAFE -4.3%	MSCI EM -14.6%	MSCI EAFE 1.6%	Barclays U.S. Agg 3.5%	MSCI EAFE -13.3%	HFRX Hedge Fund 3.5%
Barclays U.S. Municipal -2.1%	MSCI EM -30.7%	Bloomberg Commodity -22.3%	S&P 500 -22.1%	Barclays U.S. Agg 4.1%	HFRX Hedge Fund 2.7%	Barclays U.S. Agg 2.4%	Bloomberg Commodity -2.7%	Russell 2000 -1.6%	MSCI EM -53.2%	Barclays U.S. Agg 5.9%	Barclays U.S. Municipal 2.4%	MSCI EM -18.2%	Bloomberg Commodity -1.1%	Bloomberg Commodity -9.6%	Bloomberg Commodity -17.0%	Bloomberg Commodity -24.7%	Barclays U.S. Municipal 0.2%	Bloomberg Commodity 0.7%	MSCI EM -14.5%	Bloomberg Commodity -0.1%
STOCKS	BONDS	BONDS	BONDS	STOCKS	STOCKS	STOCKS	STOCKS	STOCKS	BONDS	STOCKS	STOCKS	BONDS	STOCKS	STOCKS	STOCKS	BONDS	STOCKS	STOCKS	BONDS	STOCKS

Source: Bloomberg LP. All data represents total return for the stated period. RP Groups are rebalanced monthly. Past performance is not indicative of future returns. Data are as of 12/31/18.

The Strategic Risk Profile Quilt

(1999-2018)

The Periodic Table of Investment Returns highlights the benefits inherent to diversifying investment portfolios among different asset classes and geographical regions. The rankings are highly variable from year to year and clearly depict the unpredictability of returns. This table displays annual returns for 9 different indices over the last 20 years. Each year, the indices are ranked according to their annual performance, with the best performing index at the top. Vigilant Capital Management utilizes the indices below as proxies for each asset class and to evaluate investment performance. Brief descriptions of each index can be found below. Past performance is not indicative of future returns.

Asset Class	Index - Description
Equity	**S&P 500** – measures the performance of large-cap US stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX, and NASDAQ.
	Russell 2000 – measures the performance of small-cap US stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX, and NASDAQ.
	MSCI EAFE – is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East.
	MSCI Emerging Markets - is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 21 emerging countries around the world.
Fixed Income	**Barclays U.S. Aggregate Bond –** U.S. index that measures the performance of the U.S. aggregate bond markets that include sovereign, government agency, asset-backed and corporate securities with maturities of at least one year.
	Barclays US High Yield Bond – measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P 500 is Ba1/BB+/BB+ or below, excluding EM debut
	Barclays U.S. Municipal Bond – (formerly the Lehman Brothers Municipal Bond Index) includes approximate 1,100 US municipal bonds; 60% of which are revenue bonds and 40% of which are state government obligations
Alternatives	**Bloomberg Commodity Total Return** – (formerly the Dow Jones – UBS Commodity Index) is comprised of 22 exchange-traded futures on physical commodities. The index represents 20 commodities, which are weighted to account for economic significance and market liquidity. In addition , this index includes returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.
	HRFX Global Hedge Fund Index – is designed to be representative of the overall composition of the hedge fund universe. It is compromised of all eligible hedge fund strategies. The index uses quantitative techniques and analysis to ensure the Index is a pure representation of its corresponding investment focus.
Risk Profiles	**RP3 –** is an asset allocation model comprised of 60% MSCI ACWI equity index, 30% Barclays US Aggregate bond index, 5% HRFX Global Hedge Fund Index, 5% HRFC Equity Hedge Index. The RP3 model is rebalanced monthly
	RP4 – is an asset allocation model comprised of 45% MSCI ACWI equity index, 40% Barclays US Aggregate bond index, 5% HRFX Global Hedge Fund Index, 5% HRFC Equity Hedge Index, 5% US Treasury 1-3 Yr maturity. The RP4 model is rebalanced monthly

Disclosure

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Please contact Vigilant Capital Management, 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.

Vigilant Capital Management, LLC completes and updates regulatory filings with the SEC as required. Please refer to the Firm's ADV Part 1, Part 2A and Part 2B filings for important information about how the Firm manages investment portfolios, what fees may apply to investment portfolios, important Firm disclosures, and information about employees that may participate in the investment process of the Firm. These filings may be viewed at www.sec.gov and are available upon request.