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2019 INVESTMENT TRENDS, ISSUES, & CHALLENGES

"Prediction is very difficult, especially if it's about the future."

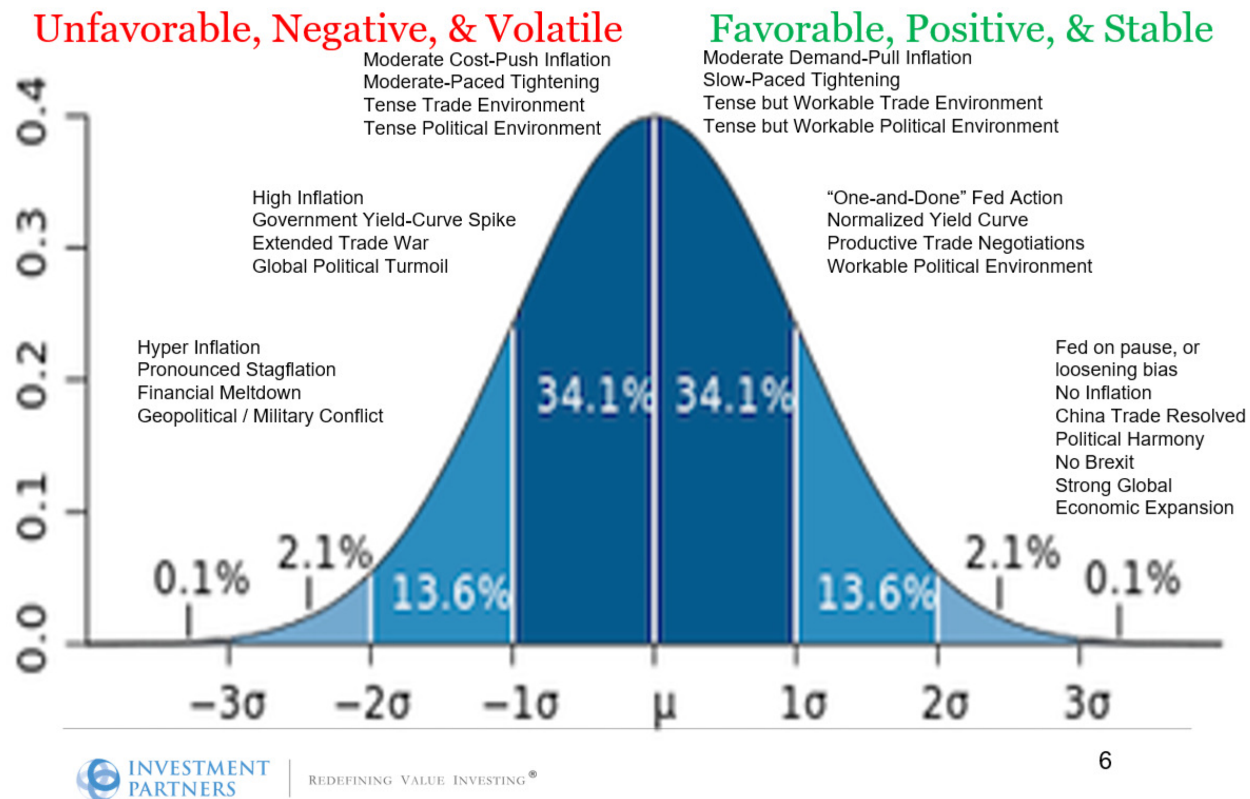
Nils Bohr 1885--1962 Danish Physicist

With all due respect to Mr. Bohr, we think there is much merit in trying to forecast the future, even though it is a daunting task worth almost as much as trying to solve the many-bodied problems in physics. In that spirit, we continue with our practice over the past number of years of providing clients and investors with our economic and market thoughts for the coming year. The process begins with assembling lots of data, building a hypothesis, constructing a "base case," and assigning probabilities to a series of events that may impact how we choose investments and construct portfolios. We formulate a number of scenarios and then choose, what we perceive to be, the most likely case as a guidepost. As the year progresses, and events unfold, we become either more or less confident - based on market reactions to events that may or may not come to pass.

Paraphrasing Warren Buffett: When you do a forecast about markets you will likely, in time, be right, if your facts are right and the reasoning that springs from your analysis is right. In a rational world you don't have to worry about what anybody else does in the short term.

Since we are always dealing with uncertainty, the picture may, at times, appear hazy. In some years, the uncertainties are magnified because the probabilities vary widely. Each forecast then presents its own challenges. Where the range of potential outcomes is narrow and the events have a low probability of occurring, there is often very little impact on our conviction. This process is similar to how an insurance company operates when it handicaps probabilities (rather than possibilities) of its underwriting risks. We believe that it is our job to weigh probabilities of a whole series of events, not only in our base case scenario, but also in other scenarios where risk mitigating strategies can act as shock-absorbers, potentially positively influencing performance.

Investment Partners Asset Management estimates for 2019 outcomes and probabilities:



Given our predictions for geopolitical and economic outcomes for the coming year, we believe risk mitigation should remain an important investment theme as we construct portfolios in 2019.

Case in point: what if the range of probabilities is wide and the impact of a particular event is significant? For example, if current trade negotiations with China do not go well and there are increased tensions, we could be entering a prolonged trade war with a material reduction in global growth. Lasting effects can happen from trade restrictions, sometimes with the possibility of military consequences. There is then, logically, a potential negative impact of some degree to our economy. Most forecasters tend to place little weight on high-impact, low probability, events such as extended trade tariffs and sanctions because the likelihood is limited and the quantitative effect is difficult to estimate. However, we believe that, while unlikely, such a scenario represents a dimension of risk that should at least be considered at the negative long-end tail of the forecast curve.

Other factors may be easier to gauge. If, for instance, inflationary pressures were to build rapidly because of labor tightness and higher wages, then the Federal Reserve's response might be to overshoot with tightening monetary policy to stay ahead of prices. Future corporate profit margins, then, could narrow, and there could be greater pressure on our currency causing import prices and commodities to rise. The increase in borrowing costs would then impact over-extended corporate borrowers which might have a harder time financing projects. Furthermore, in such a scenario, the yield curve could invert, investor sentiment could shift, and the economy could stagnate.

Needless to say, all of these circumstances in some way could diminish our economic forecast and decrease our estimates for equity returns. The confluence of these events, in our opinion, are the more likely outcomes on the negative side of our forecast curve. (We should point out that we are not predicting, at this time, that such a doomsday scenario is likely in the short run, but it is not outside of the realm of possibility – and therefore there are fat-tail risks that we expect to pay close attention to as the year goes on.)

On the other end of the outcome spectrum, we have the goldilocks end of the forecast curve: i.e. the US – China trade disputes are resolved quickly and satisfactorily, the Fed ceases raising rates, Brexit does not happen, global growth proceeds above trend (particularly in Europe and the Emerging Markets), and there is geopolitical harmony here and abroad.

With both ends of the curve in mind, we are approaching the year somewhat in the middle with a slight skew towards a constructive, but cautious bias.

We acknowledge that equity markets have recently receded some 20% from their all-time highs. Investors have become apprehensive that the economy is slowing, interest rates are rising, earnings are declining, and the Government's trade policies are leading to a recession. From a political standpoint, the change in Congress' make-up after the mid-term elections seems to suggest that there will be investigations into corruption and malfeasance in the White House, possibly resulting in a constitutional crisis and a re-examination of a number of policy initiatives enacted during the first two years of the administration. Notwithstanding these developments, the U.S. economy appears to remain on sound-footing. Consumer spending during the fourth quarter of 2018 responded well to tax-cut fiscal stimuli enacted earlier in the year with unemployment at historic lows. Programs that promote growth in the U.S. appear to have worked. Inflation thus far is under control, domestic and some international earnings still seem to be growing above trend, labor markets are strengthening, borrowing costs remain relatively low, and consumer and business spending has picked up.

So, as we enter 2019, what can we forecast based on reliable facts?

Is there any rational reason to think the U.S. economy will slow down, lead to a stall and recede? If the world economies were not so interconnected, and if there were a continuation of overall global growth, the effect of a reduced rate of growth in the U.S. might only mean a minor reduction in overall market valuations and asset prices. Investors might discount future earnings by paying less for the assets that produce profits and asset price valuations would drop until the economy was on better footing. A natural response to the business cycle would be expected. However, not

all asset valuation responses are alike. In terms of investing, one outcome would be a return to so-called *active* investing (rather than passive index investing) based on traditional valuation measures of price to book values, discounted cash flows, dividends and balance sheet strength. Again, this would be a perfectly valid investment response late in the business cycle.

For those who are more growth-oriented, there may be ways to be rewarded by looking to the sustainability of future growth and paying a premium price. So, it would be logical to assume that value investors and growth investors could be rewarded in 2019, but perhaps not in the same way that characterized the past five years, particularly in the more widely-owned large cap growth names.

Who is to say that growth-minded investors could only look to the U.S? Why wouldn't there also be prospects outside the U.S. in, say, Europe and emerging markets? In fact, it could be argued that the best values are in beaten down foreign stocks and bonds. A year ago, when things appeared rosier, we believed it was wise to step back and do some soul searching. What could we all be missing?

This year with many market sectors down substantially off their 2018 highs, we ask the same question in reverse. Why should investors be so *pessimistic*?

The long-term goal for most clients is to seek an appropriate total return from a diversified portfolio of assets, commensurate with risk. We spend a considerable amount of time attempting to find ways to grow capital while earning a current income return. Specifically, we endeavor to grow the capital base for a future time when income from the portfolios may be required to fund a future obligation, such as retirement.

Given this focus, we explore ways to balance and diversify the assets in an effort to mitigate the impact of surprises that could affect the portfolios, but also invest for the long term. Since various factors can produce pleasant as well as unpleasant outcomes, we monitor the base case with the proviso that we may vary our portfolio approach as 2019 progresses.

The Outlook for the Coming Year

For the first nine months of 2018, with the US economy doing well and corporate earnings surprising to the upside, confidence in fiscal and monetary policies remained high. In October, however, fear returned to the equity markets as the Federal Reserve continued an unprecedented experiment: increasing short term interest rates while removing asset-purchase stimuli. They signaled that they would continue to tighten conditions again soon because the economy was still strong.

Until recently, the Fed paid little attention to the credit market's response, when credit conditions appeared to weaken somewhat and the rewards for risk taking with leverage worsened.

We enter 2019 after two years of Republican control of the White House, Senate, and the House of Representatives – with a President elected by less than a majority of the population with a continued low approval rating and an unconventional approach to governance. As of now, the

Trump administration has pursued fiscal policies directed at tax cuts for the corporate and individual sectors, and softened the regulatory environment in order to stimulate commercial activity. Simultaneously, however, the White House has also enacted onerous sanctions to attempt to address large trade imbalances with certain of our foreign partners – putting economic pressure on long-standing relationships. Since US Companies are highly dependent on foreign consumption of their goods and services, the more recent economic slowdown and strained relations with Mexico, Canada, Russia, Iran, Korea, Syria, China, Saudi Arabia, Germany, France, etc. may be, ironically hurting our economy despite the original intention of those policies of leveling the playing field.

Meanwhile, as controversial as the President's policy initiatives are, they pale in comparison to the tumult from the inquiries into his alleged past transgressions, possible improper activities, and emotional responses to those questioning his moral and ethical behavior. Despite the market's initial positive reaction to this Administration's business-oriented approach, it is safe to say that 2018 marked a re-evaluation of the *Trump Bump* halo effect on the U.S. equity market. The 2018 mid-term elections swung majority control of the House to the Democrats. The message sent in November 2018 was clear – the country wants new representatives to put checks and balances on unconventional leadership.

From an economic standpoint, as we enter 2019, there is a widespread belief that US tax reform, further deregulation, and full employment on their own are not enough to sustain economic expansion. Despite the high levels of financial asset valuation and economic liquidity, central banks remained generally accommodative in recent years - and as a result the synchronized global growth story remained intact. However, as our own Central Bank has continued to remove liquidity from the markets by tightening credit, an eventual market decline naturally followed. The Fed still perceives the return of future inflation as one of the biggest disruptive risks, along with the threat of higher rates in fixed income markets, rising protectionism, and domestic and international political shocks.

Set against this backdrop here are our Ten 2019 Predictions which we believe could affect asset price valuations. Some of these predictions are of a macro nature and have societal as well as economic and political implications. It is highly unlikely that they all occur, but as a whole they have led us generally to have only moderate, rather than outsized, expectations for overall returns from financial assets for the coming year.

First Forecast:

After an initial pause early in the year, the pace of Government and Central bank interference in global markets accelerates, exposing structural flaws in banking and credit markets. Volatility becomes the norm as the prospect of any monetary mis-step heightens the possibility of a recession by 2020.

Our First Forecast a year ago was correct. We felt that the markets would remain complacent and upwardly biased for the first part of 2018, but could gradually become choppy and volatile as investors realized that addressing structural imbalances might require tradeoffs and sacrifice.

In sharp contrast to the last quarter of 2017, where complacency reigned supreme, 2018's last quarter saw significant volatility and gyrations with wide price movements. Financial markets, understandably, reacted negatively to the Federal Reserve's policy initiatives – increasing short term rates while unwinding its bloated balance sheet. Both initiatives are rightfully perceived as tightening measures aimed at keeping inflation from developing in an economy where labor is scarce. It is as if the Central Bank is taking a victory lap, declaring a win in their fight to keep prices stable, unemployment low, and wages in check. It is not the healthy economy that bothers them, but the idea that unless they tighten, they run the risk of overshooting their 2% inflation target, even though the only real increase in inflation seems to be in asset prices.

If multiple years of monetary expansion produced asset inflation, why wouldn't tightening do just the opposite?

What government officials don't appear to be concerned with is the continuation of tightening while Washington's fiscal policy is expansionary. They, no doubt, are cognizant that the Administration's fiscal stimulus, most notably tax cuts, could further create a BOOM - BUST scenario. It appears to the markets that they feel it is necessary to pull back on the monetary reins now, and in effect, "tighten while the tightening is good."

The message that we also expressed in our 2018 forecast was to take a lesson from history and be "skeptical." Better yet, learn from the example of Larry David from "Curb Your Enthusiasm." If you are a fan of the show, you might be aware that" LD", the creator of Seinfeld, is a curmudgeon that frequently finds himself in awkward situations often of his own making. The lesson here for the Fed is not to make an awkward situation worse by being smug, complacent, and unempathetic. Markets are reality. They react to policies which they perceive as errant with quick and significant votes of no confidence. This, in its own right, could contribute to diminished expectations with negative effects on the economy.

Throughout 2019 we believe it will be wise not to expect too much from the Federal Reserve and Government. We expect them to be omnipresent, but not necessarily omniscient.

Second Forecast

Destabilization remains the Norm.

Internationally, the world is in a more fractious and dangerous place. The risks of mistakes in foreign policy or mis-steps in judgment are substantial. We believe that there are just too many hotbeds globally for there to not have an incident or two that tests the Administration's resolve. The effect on markets from destabilizing events of high impact is difficult if not impossible to predict.

Having said that, certain economic events are, in and of themselves, destabilizing. For one, restrictive trade and tariff policies have negative consequences for businesses everywhere on earth. While China - U.S. relations remain front and center, there are numerous alliances affected by bilateral negotiations. During a time where there are signs of a global economic slowdown, countries are forced to choose sides. One thing is for sure - the need to act in their own self-interest will be more noticeable in 2019. Protectionism, therefore, remains a central theme.

As an example, certain "Big Picture" issues cry out for global solutions. One obvious issue is the recognition of the need for enactment of measures that address climate change. Disruptive policies and denial of scientific facts make solutions harder to attain. There are also issues of restrictive immigration policies, pitting the have nots in developing countries against those in power in developed economies.

Without dealing with these types of issues, the feeling that the global economy could enjoy synchronized growth over the long term is somewhat diminished. Europe in particular, is experiencing a slow-down caused by weakened exports in Germany, riots in France, problems in the EU banking and financial systems, tensions in Italy and uncertainty over Brexit just to name a few of the issues. Asia's growth is slowing because of its overall linkage to China.

Third Forecast

While China remains focused on its strategic goal of domination, by adoption of its "Made in China 2025" policy, it finds itself between a rock and a hard place. They have recognized that Technology and Innovation is the path to growth. In 2019 it will become clearer that they can't steal their way to success. The days of one-sided partnerships and joint ventures with the all too willing West are over.

China, while a controlled economy, has been trying to replace its reliance on overseas consumers to fuel and sustain its growth with its own population's consumerism. To fund this transition it decided to financially leverage the economy without encouraging or in most cases permitting foreign access to their capital markets. Now there is a growing realization that a dramatic slow-down in global markets will affect China and impede it from reaching its strategic ambitions in the near-term.

This setback is a blow to their national pride and a source that could lead to political uncertainty for their leaders. As important, China is not quite ready militarily, to exert its will, particularly in the South China Sea. So, it will be interesting to watch throughout the year whether trade negotiations result in meaningful concessions and reforms or the beginning of a new cold war.

Fourth Forecast

A year ago we wrote the following:

The foreign policy implications of the desire to "Make America Great Again" will be felt in all corners of the Globe - with unpredictable short-term consequences, and greater longer-term risks.

We feel the same today. It is not just Chinese-U.S. relations that have us concerned.

Growing U.S. isolationism appears to be the Norm.

The feeling that we can go it alone is upsetting to those allies that have relied on treaties and pacts and have trusted us since the end of the Second World War.

A year ago, we quoted the widely-respected Eurasia Group's thought that "'America First', and the policies that flow from it, have eroded the US-led order and its guardrails, while no other country or set of countries stands ready to or is interested in rebuilding it…. significantly increasing global risk."

This year there are countries lining up to take advantage of the vacuum we are creating. Russia and Iran, for instance, likely have plans to annex Syria as we agree to withdraw our troops, leaving the Kurds, who relied on our support, left in the dust. So, as we enter 2019, you may ask what makes this year any different from prior years. Essentially, US Foreign Policy under the current Administration continues to pursue a much more "unilateralist" agenda. By playing up to despots and dismissing our allies, we have shaken some long-standing relationships to a point where democratically-elected governments cannot assume that the U.S. will provide the same level or type of support economically, politically or militarily going forward. The consequence of isolationism could be the loss of our standing and influence in the world.

As far as markets are concerned, we have always dealt with geopolitical risk and the economic consequences of upheaval. For the most part, such worries have been short-lived. There is no doubt that in 2019 the stakes are higher, and the risks are greater.

At turning points in history, where the specter of war could destabilize an already unstable situation, military conflicts took on lives of their own. Diplomatic alliances, therefore, become more important in attempting to avoid violence. As we distance ourselves from our partners, the world becomes less secure. If, through miscalculation, the only alternative to peace is a military response, then each nation in an alliance has to weigh the consequences of remaining on-side when and if that day comes. The markets have gotten used to the idea that, in the words of Alex Lockie

(Editor of the ***Business Insider***) when speaking of the potential US North Korean conflict, “There is tremendous leverage in threatening to initiate the end of the world with nuclear war, but nothing is to be gained by actually doing it”.

That may be so under normal circumstances, but we have never had to consider that this risk is being managed by unpredictable, if not volatile, world leaders. The win-at-any-cost attitude and the desire to prove who has the stronger hand is a danger. Nothing would shake confidence in the markets more than the realization that when the chips are down, we act impulsively and alone.

Fifth Forecast

A year ago, we said the following:

Globally: Populism Confronts Authoritarianism. Domestically: Federal Control Collides with States Rights. Divided government remains a reflection of a divided citizenry.

In 2019 we observe the same to be the case. The only difference is that there is divisiveness on a grand scale. People have been lied to so often that they have become immune to truth-telling.

The mid-term elections proved that there are significant costs for the losers. A divided Congress is a political loss for the President and his party. From here on, to pass legislation, there will be a need for bi-partisan support. In its absence there will be greater attention paid to the signing of executive orders. The economic impact on getting bills passed likely will be a furtherance of more progressive agendas with more liberal spending. This comes at a time when there are already swollen deficits and mounting debts from lower tax receipts than were anticipated.

Each referendum and election across the globe in 2018 was rife with intrigue: Italy, now defiantly confronting the EU; Russia with Putin feeling the effects of economic sanctions from meddling in our elections; Mexico, over who will pay for “The Wall?” and Brazil with a more conservative leader. Markets in 2018 were conditioned to expect significant positive changes globally. Investors shook off the effects of Populism in the UK, France, and Argentina. Perhaps part of the recent market decline was a sudden recognition of global uncertainties.

In America, while change itself can be upsetting, changes imposed by someone who has a flair for the dramatic can quixotically set off unanticipated emotional responses that detract from effectiveness. Reduction of State and Local Income Tax Deductions has set off a firestorm pitting the Federal IRS against the governors of high-tax, largely Democrat-controlled, states intent on going to Court and reversing this confiscatory policy. The next stop on this journey in 2019 will likely be an attempt to reduce entitlements in the very same states, many of which pay more homage to Washington than they receive back in benefits.

The structural problems embedded in pension fund obligations will most-assuredly be another battleground in 2019. As a result, we can expect that 2019 will see more than its fair share of economic controversy at home and globally.

Societally, the controversy over DACA and security and the treatment of those trying to get into the United States will still be an issue throughout 2019. Immigration Reform and the connection to Sanctuary Cities and States will also continue to produce a battle royale. It is highly unlikely that things will go along without a hitch, politically and economically. This is particularly the case when markets are affected by daily tweets where the risk of personal communication can be misperceived. While the world seems to be getting used to, or even ignoring, tweets from politicians, it is our belief that this sort of frequent, impetuous messaging could at times produce a spillover effect into the capital markets with unintended consequences as it did in 2018.

Sixth Forecast

The US Equity Markets throughout the year will be quite volatile, with swings of up to 2% to 3% in short periods of time. An upwardly biased range of 10% to 15% could also develop by year-end which, perhaps mistakenly, is viewed as a sign of investor confidence. Our base case, however, is that the bumpy road during 2019 will ultimately only lead to moderate equity returns for the year.

Equity prices in the first three months of 2019 are upwardly biased based on hope that the second half of 2019 will see that any slowdown in the economy can be successfully managed and righted.

The upward bias is based on the belief that any market decline is only a correction in a secular bull market. The meme exists because overall corporate earnings may surprise to the upside in spite of headwinds from interruptions in global trade, increased labor costs, and higher expected borrowing costs.

Profit improvement is not uniform, however, and indeed is slower to develop in certain sectors; housing, and consumer discretionary, to name a few.

The realization that there are forces that can unfavorably affect investor's bullish sentiment keeps price-to-earnings levels in check because of intermittent political and geopolitical disruptions and headline risks.

Volatility is the product of risk perception. It is generally referred to as a measure of fear. While market participants do not like uncertainty, they can manage it by attempting to mitigate risks. Federal Reserve policy vacillation, cyber-attacks, imbalances in the supply-demand relationships in energy markets and tariff and border restrictions, are just examples of catalysts which could disrupt the market's gradual churn higher. Throughout 2017 the big surprise to us was that there was virtually no volatility. In 2018 volatility returned with professional money managers trying to offset risk by using market-neutral strategies and diversified portfolios.

In 2019 investors are looking for signs that represent a turning point as the economic expansion cycle nears full maturity. Since valuations are cheaper but remain somewhat extended in certain sectors in the beginning of 2019, it is only prudent to continue to risk mitigate client portfolios.

Seventh Forecast

Valuations matter.

Just as markets often overshoot during periods of complacency, they are apt to underperform during periods of heightened uncertainty. At inflection points markets tend to accelerate away from their former direction, gathering momentum. Trend followers and momentum theorists tend to exacerbate the trend, taking particular notice of the lack of liquidity in certain markets and sectors.

One style of investing that has gathered devotees in recent years is determining which *factors* market participants favor at any time.

Initially, *factor* investing was confined to the growth vs. value debate. Now characteristics such as momentum, investor sentiment, and earnings are measured in the same breath. At the heart of the matter is valuation; what one should pay for taking risk. For over seventy-five years security analysis has focused on the price to earnings multiple as a measure of confidence. Higher multiples are associated with a belief that, all things considered, future performance will be better than the past. So, in times of lowered expectations, earnings-based valuations suffer.

For value investors lowered expectations and lower stock prices can be viewed as opportunities. For that reason, we believe the start of 2019 offers some valuations in certain corners of the market that are attractive on both an absolute and relative basis. For growth minded investors, looking for attractive entry points on a relative basis, 2019 may also prove rewarding as long as the measure for assuming risk is believing that increased revenues can be sustained in the current economic environment.

Eighth Forecast

Domestic GDP growth declines from 3% to 2% without added fiscal stimulus during a period where monetary tightening and a balance sheet unwinding may have to be put on pause.

Last year we forecasted that GDP growth in the U.S. would reach an annual real rate of 3% because tax reform would result in an increase in discretionary consumer spending starting in the first quarter of 2018. We suggested that by year-end, a meaningful increase in wages would not materialize, Federal government tax receipts would be less than forecast and the fiscal deficit would widen. States that challenge the non-deduction of State and Local Income taxes would only be moderately successful. We know now that the States' plea has fallen on deaf ears.

Corporate earnings for 2019 were somewhat difficult to predict because of the one-off effects of tax reform and repatriation of foreign profits. Each sector and industry has its own dynamics creating competitive winners and losers. But, overall, we saw the economy reaching the intended near-term goal of 3%, with 2% inflation.

For 2019, domestic and global flows will most likely remain lackluster post tax-reform.

We are calling for a moderation in the growth rate by the fourth quarter of 2019, and feel that we may be entering a so-called *growth recession*. With this in mind there will be a lid on valuations coming in about the same as historic norms. An average of fifteen times earnings on the S&P would seem to be a fair value, in our opinion. Without new monetary stimulus, growth would be impeded but not entirely stalled. The geopolitical market environment becomes increasingly difficult to successfully navigate and the U.S. stock market remains in a fragile state at the close of 2019.

Ninth Forecast

A year ago, we forecasted that cybersecurity threats likely would impact institutions and individuals creating the potential for a possible crisis environment in 2018. Fortunately, while there were isolated disruptions, as far as we know, none rose to the level that threatened our national security. This is not to say that there will not be attempts in 2019 to wreak havoc and do major harm.

We believe that the world is increasingly at risk of a major cybersecurity disruption, and hence we are repeating our forecast.

Cybersecurity threats could likely impact institutions, individuals, and governments creating the potential for a possible crisis environment in 2019.

Because the digital world has made us more connected and reliant on technology solutions in our every-day lives, the risk of denying access to services we take for granted is amplified by cybercriminal behavior. Breaches in security that safeguard data or identity, even data supplied by government or large institutions, likely will accelerate in 2019.

The likely response will be the creation of new technologies to counteract the potential for future threats, but are they enough? It is one thing for cyber-criminals to be motivated by political, social or economic gain; it is another if their motivation is military in nature. With the Mueller probe moving to conclusion we are about to find the degree of complicity that foreign powers have had on elections, the democratic process, and our way of life.

We are about to find out something we already know. Bad people are capable of bad things.

It is one thing for the battle-lines to be drawn using the strength of the legal system to punish individuals and penalize companies who have been flagrantly causing harm. It is quite another if these attacks are intentionally conceived and carried out by governments. The prospect of threats on our national security could lead to war.

The likelihood of some form of geopolitical attack, hitting the US where we are most vulnerable, is real. It falls in the area of unknown unknowns. Whatever economic forecasts we may rely on,

in the event of an attack on this country, its internet, or its power grid, these forecasts understandably go out the window.

Tenth Forecast

Last year we posited the idea that technology directed at disruption in conventional industries would gain greater importance in 2018 rewarding risk takers and punishing those that oppose change.

There is little doubt that the speed of technological innovation is accelerating worldwide. For this reason we repeat our 2018 forecast but add another dimension.

Empowerment will belong to those who grasp the significance of the Technological Revolution, run with it and apply the science of controlling data and the information that springs from it.

Machine learning, predictive analytics, blockchain utilization, artificial intelligence, authentication, connectivity in the internet of things, and electric driverless cars are just some of the areas where breakthroughs are expected to materialize. Similarly, advances in medical technology, instrumentation, and genetic profiling to both treat certain diseases and extend life will continue to draw investor interest like never before. This is just the beginning.

Initially, certain industries and companies will resist change. But in an environment where capital is plentiful and inexpensive, regulations are more relaxed, and citizenry more educated, innovation will continue to flourish.

The equity markets in some ways reflect the future growth for innovators but have perhaps not yet fully punished those companies that are resisting change. This is not true in retailing. Online retailing has taken its toll on conventional stores with a promise that there is more to come.

We predict that many companies in 2019 will use the opportunity to change strategies at a faster rate. Also, mergers and acquisitions and share buybacks should reach record levels but may be somewhat impeded by higher costs of capital and extended valuations. It is a good time for sellers, but 'buyer beware' should be the mantra going into 2020.

CONCLUSION

All of the above highlights the particular importance of true diversification to create an investment portfolio whose goals include elements of capital maintenance and preservation as well as risk mitigation. We expect to manage portfolios consistent with clients' objectives typically owning a blend of fixed income securities, equities (many with income components) with potential for growth in principal, actively-managed mutual funds, closed end funds and passively managed ETFs.

We recognize that the management of some clients' portfolios may have multiple (sometimes competing) objectives because of the need to distribute income for current expenses and growth to keep pace with inflation and future cash outlays.

The importance of pursuing adequate investment returns through risk mitigation, balance and diversification in the uncertain environment we are forecasting in 2019 cannot be understated

For the majority of client relationships, we believe the best strategy for 2019 is to invest tactically, but generally to have a balanced and diversified portfolio of core equities, core fixed income investments, strategic satellites, and cash/money market funds awaiting opportunity for deployment, in what should be an eventful year.

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