

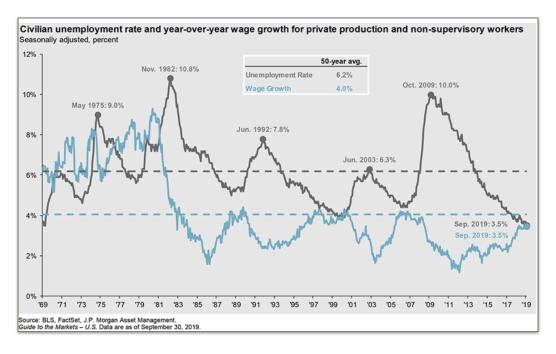
Market Commentary Third Quarter, 2019

Over the past few quarters, our views have remained consistent. The global economy is experiencing lackluster growth, inflation is subdued, the labor market remains strong, but uncertainty domestically and abroad has taken hold of markets and businesses. Strategically, we think it is prudent to be cautious with asset allocation, but take advantage of opportunities when we see value.

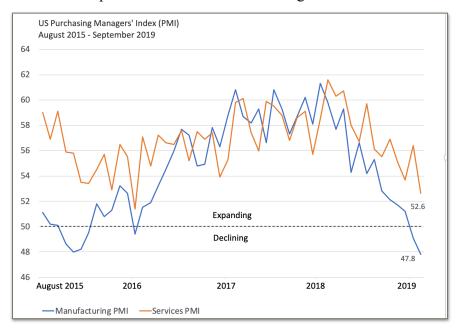
Trade tensions, protests in Hong Kong, drone attacks on Saudi Arabian oil fields, and the recent impeachment inquiry are only a few of the many issues affecting consumer and business confidence. We expected the trade issues with China to be resolved by now because it is in our mutual best interests to do so. We have become increasingly skeptical that a broad based agreement can be reached any time soon, which will continue to suppress economic growth.

A slowdown in economic growth is no longer just a prediction. In the second quarter, GDP slowed to 2.3% year-over-year compared to 2.9% for 2018. Estimates for the third quarter reflect a further deceleration to 2.0%. Political uncertainty and the overall global outlook is casting a shadow over business confidence and impacting the economy. When companies are confident, hiring and capital investment expands — this drives consumer confidence through higher wages, increased spending, etc.

The labor market is churning along and hiring remains solid, but further softening to business sentiment could trickle into hiring practices. Non-farm payroll employment rose an average 157,000 per month during the third quarter and the unemployment rate declined to 3.5%, a fifty year low. Wage growth was 3.5%, consistent with a tight labor market.

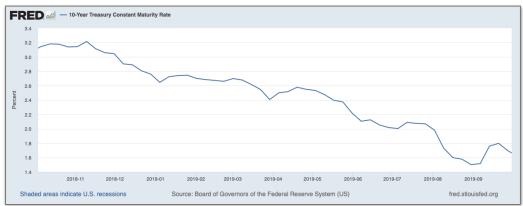


The Institute for Supply Management (ISM) surveys purchasing and supply management executives monthly. In the most recent ISM survey, respondents reported concerns with tariffs, labor resources and the direction of the economy. As noted below, growth in both services and manufacturing is at their weakest level since 2016, with services expanding slightly and manufacturing contracting. In fact, if you were to extend the chart, manufacturing is at its weakest level since March 2009, dropping from 49.1% in August to 47.8% in September. A ratio below 50% signals a contraction.



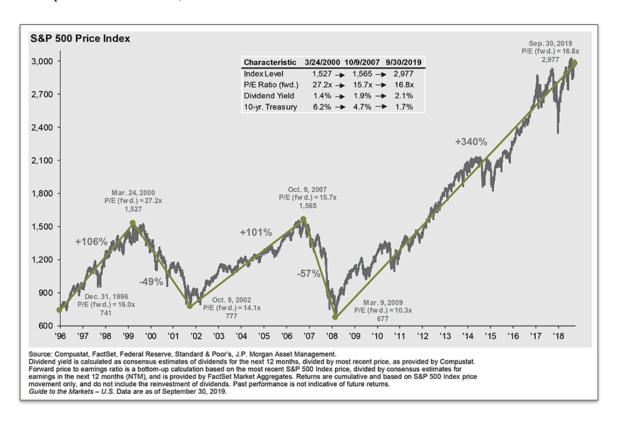
In response to the rising uncertainty about economic growth, the Federal Reserve Open Market Committee (FOMC) reduced its target interest rate an additional 0.25%, and the futures market implies an additional three 0.25% reductions during the next year. The FOMC describes its rate reductions as an "insurance policy" and a "mid-cycle adjustment" to sustain economic growth.

Fixed income market returns were strong during the quarter as long term interest rates declined and pushed bond prices higher. Yields may go even lower if the global economic slowdown accelerates. Below is a graph of the ten year treasury bond yield for perspective on the magnitude of the drop in yield.





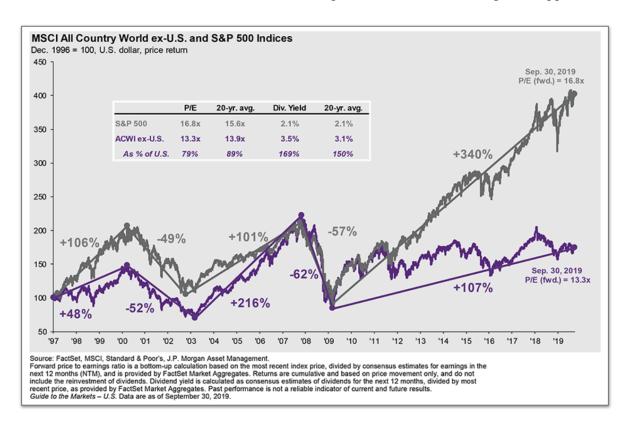
Equity markets have been incredibly resilient year-to-date despite constant negative headlines domestically and abroad. The S&P 500 posted double digit (20.6%) returns, but when you take into account the recent correction in December 2018, we are not surprised by this strong rally. In fact, if you evaluate the past twelve-months, investment returns were modest at 4.3% for the S&P 500.



The S&P 500 was valued at a forward Price to Earnings (PE) ratio of 16.8x at quarter end, slightly above its 25 year historical average of 16.2x. Earnings per share and profit margins are at or near historical high levels and benefited from record stock repurchases during the last two years. Without the benefit of the stock repurchases and fewer shares outstanding, earnings per share and margins would be 2.1% lower. The current valuation is not overly expensive, but it is not cheap either. If future earnings are lower than consensus estimates, the forward PE is understated and the market is more over-valued.



International stocks are cheap relative to both US stocks and their long term average valuations. From the late 1990s up until 2011, both US and international markets performed similarly. Since then, US markets took off, leaving international stocks behind. The result is a significant gap in historical valuations. The All Country World ex-US index is valued at a P/E of 13.3x, below its long term average of 13.9x and 79% of the S&P 500 P/E. International equities offer attractive long-term opportunities.



Our confidence in economic and market 'expert' predictions has never been lower, which is one of the reasons we favor globally diversified investment portfolios. In any given year, there are usually some asset classes with positive returns and others with negative returns. Often asset classes that outperform in a single year lag the following and vice versa. Diversification mitigates some of the downside risk and captures meaningful upside return. We've included a familiar chart on the next page to illustrate this thesis.

## JRM Investment Counsel

An Independent Investment Advisor Firm

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	2004 Ann.	- 2018 Vol.
REITs	EM Equity	REITs	EM Equity	Fixed Income	EM Equity	REITs	REITs	REITs	Small Cap	REITs	REITs	Small Cap	EM Equity	Cash	REITs	REITs	REITs
31.6%	34.5%	35.1%	39.8%	5.2%	79.0%	27.9%	8.3%	19.7%	38.8%	28.0%	2.8%	21.3%	37.8%	1.8%	28.5%	8.5%	22.4%
EM Equity	Comdty.	EM Equity	Comdty.	Cash	High Yield	Small Cap	Fixed Income	High Yield	Large Cap	Large Cap	Large Cap	High Yield	DM Equity	Fixed Income	Large Cap	EM Equity	EM Equity
26.0%	21.4%	32.6%	16.2%	1.8%	59.4%	26.9%	7.8%	19.6%	32.4%	13.7%	1.4%	14.3%	25.6%	0.0%	20.6%	8.3%	22.1%
DM Equity	DM Equity	DM Equity	DM Equity	Asset Alac.	DM Equity	EM Equity	High Yield	EM Equity	DM Equity	Fixed Income	Fixed Income	Large Cap	Large Cap	REITs	Small Cap	Large Cap	Small Cap
20.7%	14.0%	26.9%	11.6%	25 4%	32.5%	19.2%	3.1%	18.6%	23.3%	6.0%	0.5%	12.0%	21.8%	-4.0%	14.2%	7.8%	18.6%
Small Cap	REITs	Small Cap	Asset Allec.	High Yield	REITs	Comdty.	Large Cap	DM Equity	Asset	Asset	Cash	Comdty.	Small Cap	High Yield	DM Equity	Small Cap	Comdty
18.3%	12.2%	18.4%	7.1%	-26.9%	28.0%	16.8%	2.1%	17.9%	14.9%	5.2%	0.0%	11.8%	14.6%	-4.1%	13.3%	7.5%	18.6%
High Yield	Asset	Large Cap	Fixed Income	Small Cap	Small Cap	Large Cap	Cash	Small Cap	Hìgh Yield	Small Cap	DM Equity	EM Equity	Asset Alac.	Large Cap	Asset Alloc.	High Yield	DM Equity
13.2%	8.1%	15.8%	7.0%	-33.8%	27.2%	15.1%	0.1%	16.3%	7.3%	4.9%	-0.4%	11.6%	14.6%	-4.4%	13.1%	7.3%	17.6%
Asset Albc.	Large Cap	Asset Asset	Large Cap	Comdty.	Large Cap	High Yield	Asset	Large Cap	REITs	Cash	Asset Affac.	REITs	High Yield	Asset Alloc.	High Yield	Asset Alloc.	Large Cap
12.8%	4.9%	15.3%	5.5%	-35.6%	26.5%	14.8%	-0.7%	16.0%	2.9%	0.0%	-2.0%	8.6%	10.4%	-5.8%	8.8%	6.2%	14.5%
Large Cap	Small Cap	High Yield	Cash	Large Cap	Asset	Asset	Small Cap	Asset	Cash	High Yield	High Yield	Asset Asset	REITs	Small Cap	Fixed Income	DM Equity	High Yield
10.9%	4.6%	13.7%	4.8%	-37.0%	25.0%	13.3%	-4.2%	12.2%	0.0%	0.0%	-2.7%	8.3%	8.7%	- 11.0%	8.5%	5.2%	11.0%
Comdty.	High Yield	Cash	High Yield	REITs	Comdty.	DM Equity	DM Equity	Fixed Income	Fixed Income	EM Equity	Small Cap	Fixed Income	Fixed Income	Comdty.	EM Equity	Fixed Income	Asset Alloc.
9.1%	3.6%	4.8%	3.2%	-37.7%	18.9%	8.2%	- 11.7%	4.2%	-2.0%	- 1.8%	-4.4%	2.6%	3.5%	- 11.2%	6.2%	3.9%	10.3%
Fixed Income	Cash	Fixed Income	Small Cap	DM	Fixed Income	Fixed Income	Comdty.	Cash	EM Equity	DM Equity	EM Equity	DM Equity	Comdty.	DM Equity	Comdty.	Cash	Fixed Income
4.3%	3.0%	4.3%	-1.6%	Equity - 43.1%	5.9%	6.5%	-13.3%	0.1%	-2.3%	-4.5%	- 14.6%	1.5%	1.7%	- 13.4%	3.1%	1.3%	3.3%
Cash	Fixed	Comdty.	REITs	EM	Cash	Cash	EM	Comdty.	Comdty.	Comdty.	Comdty.	Cash	Cash	EM	Cash	Comdty.	Cash
1.2%	Income 2.4%	2.1%	- 15.7%	Equity - 53.2%	0.1%	0.1%	Equity - 18.2%	- 1.1%	-9.5%	-17.0%	-24.7%	0.3%	0.8%	Equity - 14.2%	1.8%	-2.5%	0.8%
Source: B Large cap Bloomber Barclays MSCI EAI Bloomber assumes end for in performar	Barclays, B b: S&P 500 g Barclays 1-3m Trea FE, 5% in g Barclays annual ret dex definit nce is not i	sloomberg, D, Small ca s Global H isury. The the MSCI s Global H balancing. tions. All d indicative	FactSet, I ap: Russel Y Index, F "Asset Allo EME, 25% igh Yield In Annualize ata repres	MSCI, NAI 1 2000, EM ixed Incon ocation" po in the Blo ndex, 5% i d (Ann.) re ents total r	REIT, Rus I Equity: M ne: Blooml ortfolio ass comberg B in the Bloo eturn and v	sell, Stand ISCI EME, berg Barcl umes the tarclays Use mberg Co volatility (V stated peri	dard & Pool DM Equit ays US Ag following v S Aggrega mmodity In fol.) repres	or's, J.P. M y: MSCI E ggregate, f veights: 25 te, 5% in t ndex and s sents perio	lorgan Ass AFE, Com REITs: NA 5% in the 5 he Blooml 5% in the 1 d of 12/31	et Manage dty: Bloon REIT Equi 8&P 500, 1 berg Barck NAREIT E /03 – 12/3		nmodity Ind dex, Cash Russell 20 Freasury, 5 Index. Ba ise see dis	dex, High \ Bloomber 000, 15% i 5% in the lanced postclosure pa	Yield: rg in the rtfolio age at	1.8%	-2.5%	0.85

The light grey boxes connected with the line chart represent hypothetical returns from a globally diversified portfolio with an asset allocation of 35% domestic equity, 15% developed international market equity, 5% emerging market equity 10% alternative assets and 35% fixed income. The diversified portfolio will never yield the best or worst results, but is a useful and consistent method to manage risk and market volatility.

We have adopted a slightly more defensive posture with asset allocation, security selection and portfolio diversification. Only time will tell if we will experience a minor mid-cycle slump or if the economy slides towards a recession. Regardless, the combination of low interest rates and current equity valuations implies future returns from both asset categories will be low during the next few years. During this time of uncertainty and the inevitability of the current economic cycle ending, we think this is a prudent action.

Thanks again for your trust and confidence. Should you have any questions or would like to discuss your financial goals and investment portfolio please let us know.

Respectfully,

The JRM Investment Counsel Team Jack, Phil and Lauren