JJ BURNS

2019: 3rd Quarter Summary

"Dizzy / I'm so dizzy, my head is spinning." *Tommy Roe, singer*

Our news and economic cycles appear to be increasingly dominated by the same few policy topics: China and the trade wars, a global slowdown, negative interest rates and the possible impeachment of the U.S. president. While these issues rightly command our attention, investors are seeking some clarity.

As we see below, major equity markets are positive for the year-to-date period through September 30. Earlier gains, rebounding from the 2018 bear market, have held in the U.S.; the issues listed above are partially reflected in the Q3 data, particularly in international stock returns. High-quality bonds have rebounded from last year's losses as the Fed has revised course and begun gradually lowering rates. Municipal and high-yield bonds have also performed well. Real assets, particularly those related to real estate, have had strong years thus far. Oil shrugged off a recent drone attack on Saudi resources; the dollar is up slightly.

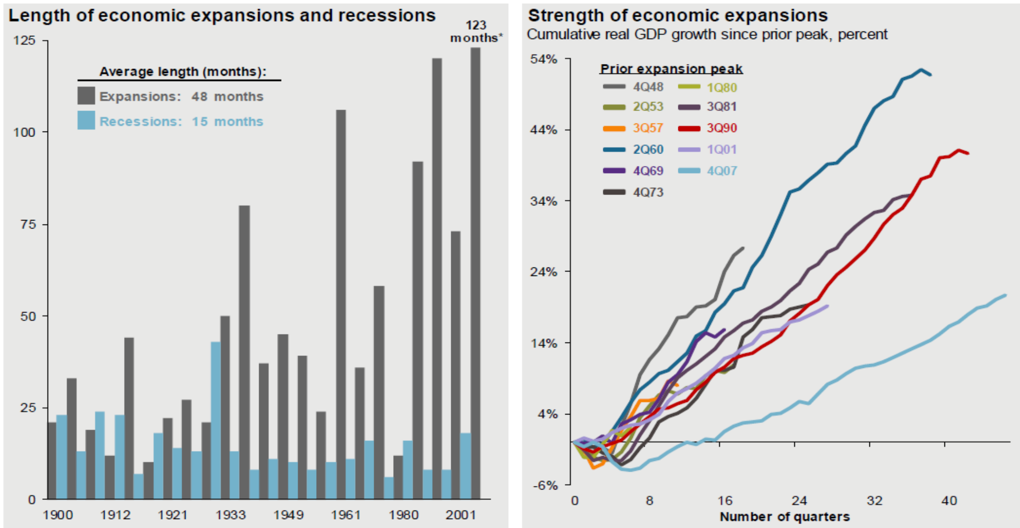
Index Returns
as of 9/30/2019

Index	Q3 2019	YTD thru Sept. 2019	2018	2017
FIXED INCOME				
BbgBarclays US HY 2% Issuer Cap	1.33%	11.41%	<2.08%>	7.50%
BbgBarclays Municipal	1.58%	6.75%	1.28%	5.45%
BbgBarclays Global Aggregate	2.59%	8.75%	1.76%	3.04%
BbgBarclays US Agg Bond	2.27%	8.52%	0.01%	3.54%
U.S. STOCKS				
Russell 1000 [Large-cap Stocks]	1.42%	20.53%	<4.78%>	21.69%
Russell 2000 [Small-cap Stocks]	<2.40%>	14.18%	<11.01%>	14.65%
S&P 500	1.70%	20.55%	<4.38%>	21.83%
INTERNATIONAL STOCKS				
MSCI ACWI Ex USA NR [All Stocks]	<1.80%>	11.56%	<14.20%>	27.19%
MSCI EAFE NR [Developed Markets]	<1.07%>	12.80%	<13.79%>	25.03%
MSCI EM NR [Emerging Markets]	<4.25%>	5.89%	<14.57%>	37.28%
REAL ASSETS				
U.S. Dollar	3.38%	3.33%	4.40%	<9.87%>
Morningstar US Real Asset Index	0.90%	8.43%	<3.17%>	3.52%
Bloomberg Commodity	<1.84%>	3.13%	<11.25%>	1.70%
S&P GSCI Crude Oil Spot	<7.53%>	19.07%	<24.84%>	12.47%
S&P United States REIT	7.46%	25.45%	<3.79%>	4.33%
S&P Global Ex US REIT	3.42%	19.19%	<6.52%>	16.72%

Source: Morningstar, Inc. USD data with dividends and interest

"Although our intellect always longs for clarity and certainty, our nature often finds uncertainty fascinating." *Carl von Clausewitz, soldier and military theorist*

Let's first address the question on every investor's mind: when will the recession occur? The answer, of course, is that no one knows; the adage runs, "economists have predicted nine of the past five recessions." The current U.S. expansion recently became the longest post-war expansion on record, but it is also the weakest, as these graphs show



JP Morgan Asset Management, Inc.

If and when a recession hits, no one knows how long it will last or how severe it will be. But what we see right now is that the data signals we follow, while showing some deterioration, do not point to immediate recession. We still see job growth, low inflation, positive GDP growth, manufacturing strength (though some weakness is present), low interest rates and a low rate of bond defaults. These are all good signs.

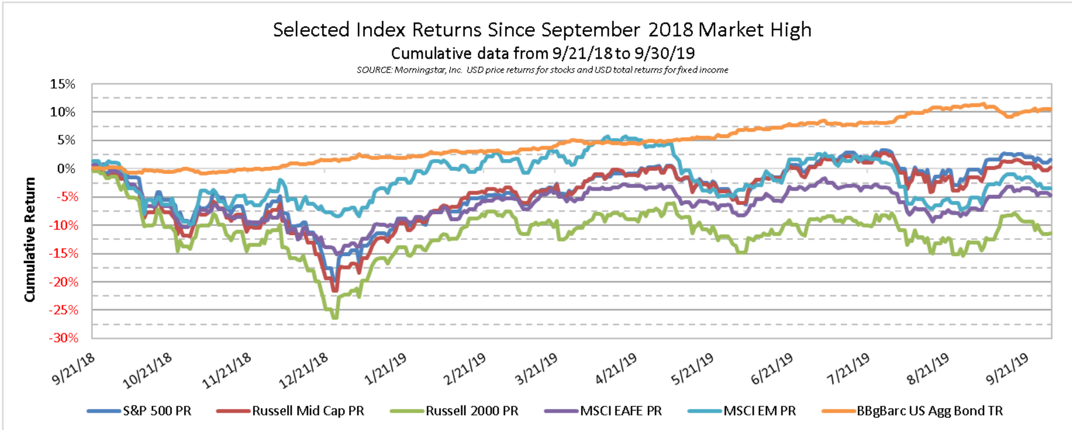
We are cautioned by other data we see, including slowing growth in the index of Leading Economic Indicators, job creation at lower levels than in the previous administration, weakness in exports (as shown in PMI data) and increased wage growth. GDP growth at *desired* levels is proving elusive despite the extraordinary stimulus from the Tax Cut and Jobs Act of 2017 and unprecedented federal-deficit growth. One interesting note is that despite a declining unemployment rate and a higher GDP-growth trend, the Bureau of Labor Statistics reports that there have been 1.2 million fewer jobs during Trump's term thus far compared to a similar period at the end of Obama's second term (6.3 million v. 7.5 million).

"Clarity affords focus." *Thomas Leonard, personal coach*

Our concerns around policy clarity lie in three key policy areas:

- **Monetary policy:** It seems clear that monetary policy is not promoting or achieving desired growth goals. Both here and abroad, the effects seem to be diminishing.
- **The global trade war:** Despite the stated belief that "trade wars are good, and easy to win," they are anything but. U.S. consumers and farmers are suffering onerous tariffs and corporations are realigning global supply chains and investment. Most important, negotiation goals, especially for the China-U.S. talks, are unclear. The U.S. trade deficit is growing, not contracting.
- **Interest-rate policies**: In the U.S., they are uncertain; abroad, they are designed to be stimulative. The U.S. FOMC has reversed its rate-hiking regime and engineered two cuts thus far in 2019. Questions abound regarding the Fed's long-term goals: stimulate the economy, or control inflation? Fight *deflation*? Support the slowdown from trade tensions, or continue their original path? These are difficult but important questions that need clarity.

The markets' demand for clarity is best demonstrated in the graph below. Since the S&P 500 index's 2018 high last September, equity markets have moved sideways or lower. Quality bonds – the orange line below – have moved steadily higher on recession fears and investor uncertainty.



“For new ideas to be translated into new realities requires not only clarity of vision but also the opportunity to change old realities.” ***Riane Eisler, cultural historian, author & educator***

The other important question for investors is what will happen to stocks. Although stocks have been flat since last year’s high, earnings growth has been positive thus far in 2019. Third-quarter U.S. earnings are not expected to be especially robust and may set negative sentiment for coming quarters. Despite this analysis, we do not see excessive valuations here or abroad. The graph below reflects *forward* P/E ratio valuations for three key indices as of October 1. A global low-yield environment, coupled with manageable valuations, still indicate a ‘risk on’ environment. We also believe other risk assets, such as high-yield debt, real estate and emerging-markets bonds also have attractive qualities.

Clearnomics, Inc.’ Standard & Poor’s, MSCI and Refinitiv

As we noted in our recent blog, trying to forecast a recession or time a market decline is impossible. It is highly probable that we will experience a recession in the U.S. in next few years. Generally, markets do not recognize that we’re in a downturn until we begin to emerge from it. We also know that portfolio diversification is important because markets do not all move in lock-step. Other assets in your portfolio, particularly bonds, are there to provide ballast and funds for rebalancing in times of market stress.

We believe the key to weathering a recession is to know where *you* are in your economic life-cycle and controlling the things you can. Your time until retirement and how dependent you’ll be on your portfolio for funds will influence your exposure to stocks. Investors who have at least five years until they need to draw from their portfolios shouldn’t be too concerned about short-term market declines. The best strategy – and the one we follow – is to keep you on course and look at declines as an opportunity to reposition your portfolio.

As always, please take time to review your financial plan and portfolio(s) and contact us with your comments and questions.

—Your Wealth Management Team at JJ Burns & Company

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Unless otherwise stated, performance numbers refer to indexes, which cannot be invested in directly and have no fees or trading expenses associated with them. All index data provided by Morningstar, Inc.

 Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities.

Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax-exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.