THE GAMBLER:

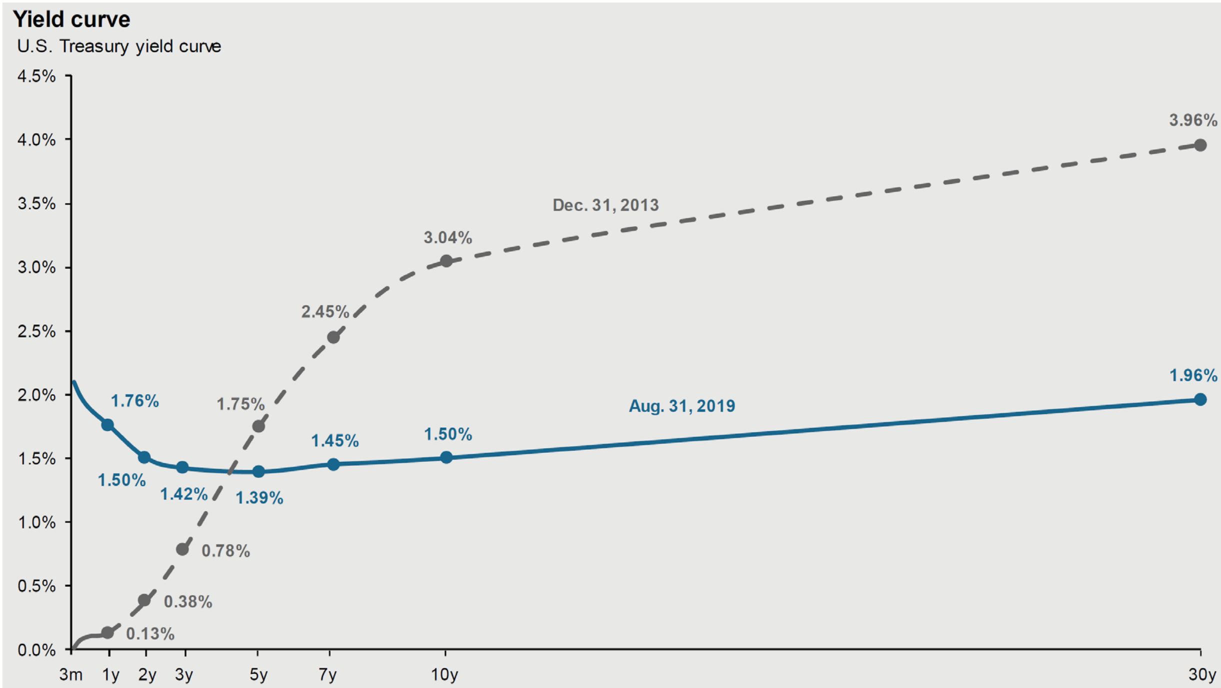
Q4 Market Update

Kenny Rogers could have been a market technician with his sound advice in his song "The Gambler":

You've got to know when to hold 'em,
Know when to fold 'em,
Know when to walk away,
And know when to run.
You never count your money
When you're sittin' at the table.
There'll be time enough for countin'
When the dealin's done.

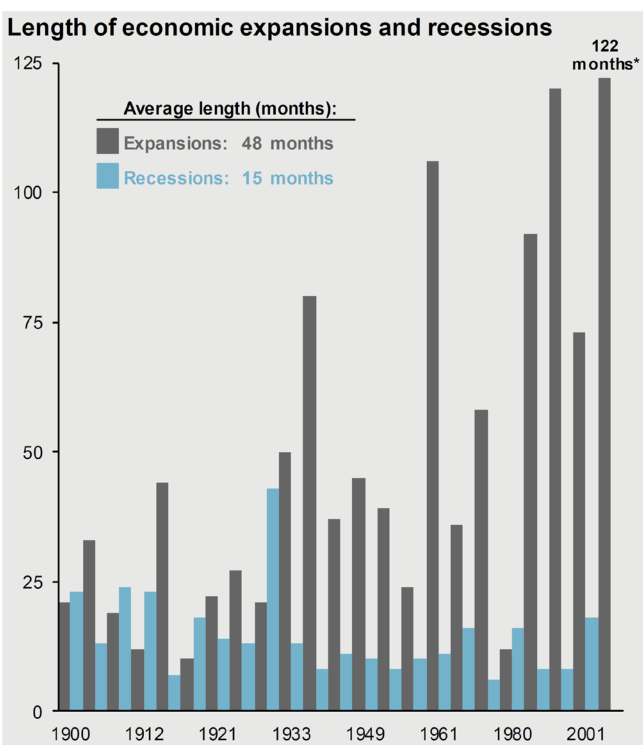
Markets feel more and more like we are sitting in Las Vegas waiting on an Ace in the hole. Time and time again we have bumped up near record highs and the 3,000 ceiling on the S&P 500 has held firm. The bulls and bears are still fighting for who is in control, and somehow political uncertainty has climbed to new highs we didn't know existed. Between Boris Johnson's Brexit and the upcoming impeachment process, it is certainly a good time to be a Washington pundit, but a difficult time to be an investor.

Our team continues to believe being disciplined and not chasing or over-reacting is the best way to deal with the tempest that is the markets. Our focus is on quality, balancing risk, trimming gains and generally looking to collect income while we wait on a sideways market. Signals continue to flash for a 2020 recession, which may be sped up by continued trade and tariff pressure, as well as the impending anti-trust lawsuits into big tech. Big tech was a main driver of market returns over the last 3 years: FAANG (Facebook- Amazon- Apple- Netflix- Google) helped propel the markets to new highs and push Growth investing well in front of Value investing. However, many now face large federal and state anti-trust probes, and Netflix has turned negative on the year with continued pressure from new streaming platforms such as Apple and Disney. If the main engine of recent market growth sputters, what will keep pushing us forward? Tech helped drive the 90s expansion, and while we don't think it is a similar bubble, you have to wonder how long double-digit expansions for those companies can continue as regulatory pressure increases and new competitors enter the marketplace.



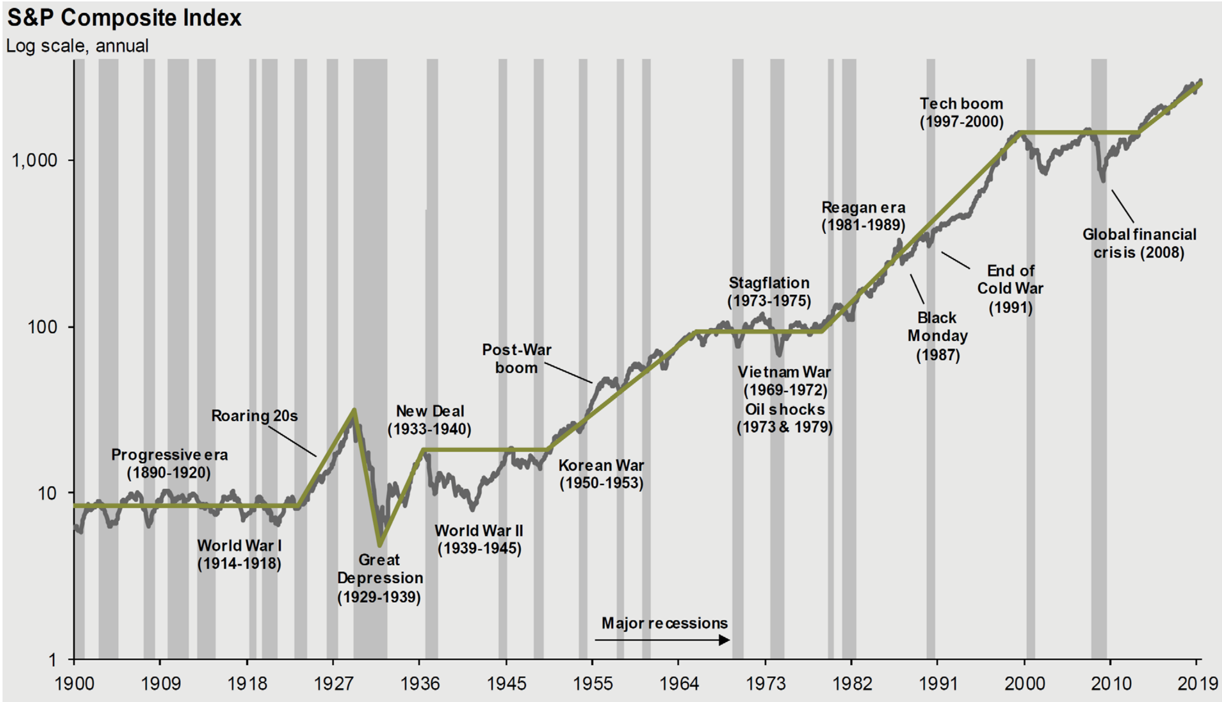
Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of August 31, 2019.

There are two major signposts we are watching for signals of a potential recession: yield curve inversion and the length of expansion. We are now in month 122 of the current expansion, now the longest expansion on record, and 2.5x the average expansion length of 48 months. Along with the continued inversion of the yield curve, it makes a compelling statement. It is said bull markets don't die of old age, policy error kills them.



Among the Fed, continued geopolitical unrest and trade/tariff unknowns, Fed policy seems likely to end this unprecedented economic expansion sooner rather than later. The Fed has a thankless job of attempting to rein in forces that are difficult to contain. Most likely they will signal too aggressively, move too quickly or too slowly and generally not get it right. They are the quintessential Goldilocks – anything they do will most likely be judged either too aggressive or too passive.

It is good to remember that Recessions are only an economic definition of two quarters of falling GDP, not a corresponding market pullback or percentage drop. And all recessions are not created equal, nor is their impact on the fixed income and equity markets. We continue to feel a mild recession would be a pause in this long-term secular bull market that will continue to see strong equity returns for the next decade, similar to the post-war boom of the 50s and the Reagan Era of the 80s – and the tech era 90s expansion. Note that within those periods of extended equity outperformance, there were recessions and even the Black Monday Crisis of 1987. And per FactSet, on average over the last 39



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.
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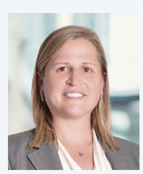
years there is an intra-year drop of 13.9%, but for 29 of the 39 years the S&P 500 was still positive over the calendar period.

Since the March 9, 2009 low of 677 on the S&P 500, the markets are up 333%, however have recently been stalled around the 3,000 mark since the Fall of 2017. And while 2019 performance has been up double digits, the 1-year returns of these indexes remain muted – DJIA up 1.81%, S&P 500 up 2.43% and the NASDAQ up 0.87% (all data as of 9/25/19 per Bloomberg). G Squared still views this market as prime for a pullback and mild recession, however equities will continue to drive long-term returns. Clients should take earnings and gains from equity strategies and park them in safer places such as fixed income, cash equivalents, or appropriate Alternative Investments if it fits the portfolio. October is a historically weak month, and the last two years you have seen volatility spike and markets struggle in the 4th Quarter. We may follow a similar pattern, however recommend that you do not panic-sell and you stay the course when the going gets tough.

And let us all enjoy the end of 2019 in peace as we round into the deafening roar of political rhetoric leading into the 2020 election cycle.



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