THE ROAD NOT TAKEN:

Q1 Market Update

“I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I,
I took the one less traveled by,
And that has made all the difference.”
-Robert Frost *the Road Not Taken*

We may feel at times we are at an intersection in the world economy; one path full of optimism and growth, the other marred in fear. At times that fear is overwhelming, gnawing at us that at some point the market cycle will end as all good things must end. As we plan for 2020 it feels we must pick a path- prosperity or ruin?

2020 Outlook

Analysts are split on 2020 forecasts; the mean projection is 4.3% return on the S&P 500, peaking at 3,280 in 2020 according to surveys of 17 estimates compiled by Bloomberg. Vanguard’s CIO Joseph Davis is projecting 50% odds of major correction in 2020 along with Morgan Stanley, UBS Group AG and Societe Generale all seeing the S&P 500 end 2020 lower than a year from now, while Credit Suisse has the most bullish target of 3,425. Expectations are wide ranging and generally low with multiples trading higher than average with a 17.8x forecasted profits. We tend to feel the middle way, the balanced way will help you succeed. It may be boring, it may not titillate and set records, but it is the path most likely to succeed. Being disciplined, trimming back winners, staying in balance, not allowing yourself to be swayed by the siren song of disaster or overconfidence.

Major hurdles are being settled in the end of 2019. Trade looks to have found a wary compromise, or at the very least, a cease and desist on escalation. Brexit looks to finally actually be happening with Boris winning a solid majority and finding the backing to push forward. One would think this sets the stage for smoother growth, but just as we put one global uncertainty to bed, we find another pop up. This has begun to feel as if we are playing the worst game of Whack-a-mole at a county fair. Just as we started to feel stable, here comes impeachment and 2020 elections to rattle sabers and raise the fear gauges again.

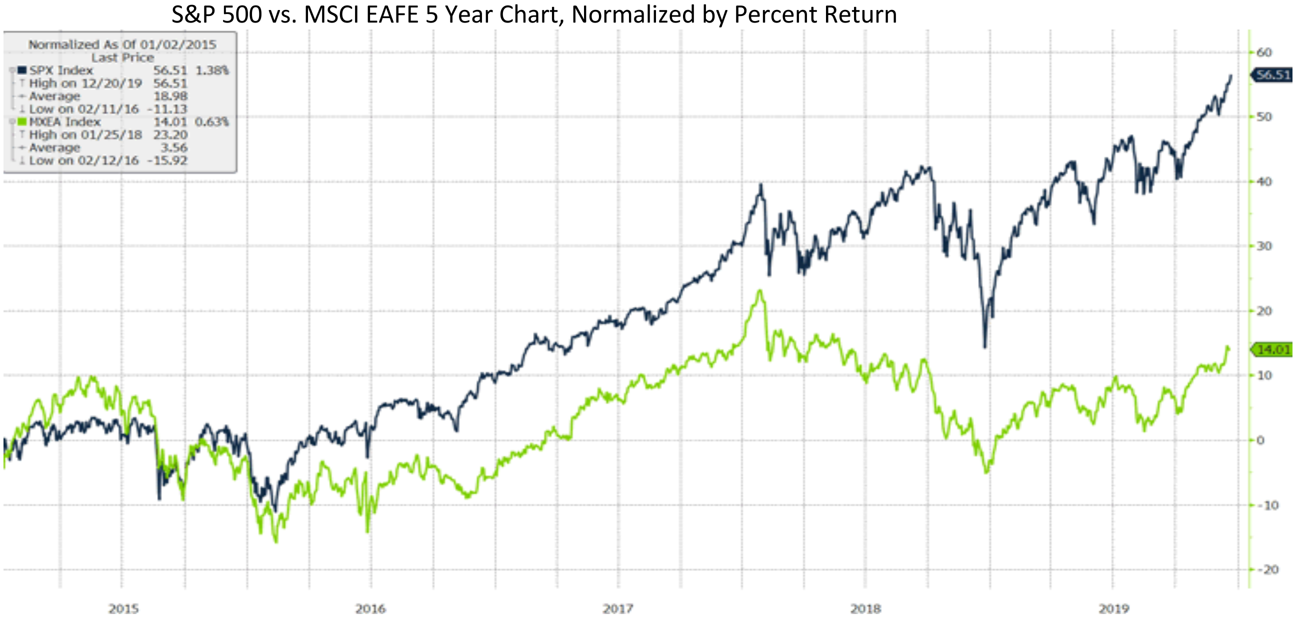
USA vs. the World

It takes a disciplined mind to succeed. To find the strength to stand firm on convictions and believe in your process while others may waver. To not follow the lemmings towards the edge and find your own path. We feel global growth will be stable. Stocks will outperform bonds and US equities will continue their unprecedented run of outperformance versus global markets. The S&P 500 has become the New England Patriots- always winning, every year they are threatened and tested, yet find a way to win. Statically, global markets should be reverting to the mean. The MSCI EAFE should not have a relative underperformance last this long, and nevertheless it has persisted. Over the last 5 years, (12/31/2014 – 12/19/2019) the S&P 500 has returned an annual equivalent of 9.44% Price Return, or +56.51% for the 5 years. The MSCI EAFE 2.82% per year, or +14.01% for the 5-year period. Out of 5 years, only in 2017 did International outperform, and by only +4% over domestic markets. The amount of divergence is meaningful and understandably economist and analysts point to this continued outperformance in absolute terms.

But we view economic leadership not as an absolute statistic, but as relative. What will drive international markets higher? No economy has a higher potential for continued, steady economic growth, technological innovation, and sustained research and development of engineering and design. Saying something should revert and it should be one way, is not the same as finding empirical evidence pointing toward why that market will shift higher. Japan is marred in a demographic debacle and its continued quantitative easing seems to be losing steam.

Europe can barely stop protesting long enough to focus on economic expansion even with negative rates, the UK is going through a messy divorce, and Latin America is struggling to find footing and growth in a lackluster commodity market. Could one of those markets be the underdog that upsets the US? Possibly, but not probable.

S&P 500 vs. MSCI EAFE 5 Year Chart, Normalized by Percent Return



Data obtained from Bloomberg LP 12/20/2019

Looking Forward

Stick to US high quality stocks, continue to focus on risk management and taking your gains and parking them in safety. Utilize total return and collect dividends and income to supplement what may be a volatile and sideways market. Stay the course during rough periods

Is our outlook boring? Potentially.

Do we feel it will lead our clients to success? Absolutely.

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