

INVESTMENT REPORT



LYNCH FINANCIAL GROUP LLC
— Retirement Wealth Management —

April, 2019

www.LynchFinancialGroup.com

Investment Review and Outlook

Benchmark and Mutual Fund Performance

It certainly feels better to see strongly positive portfolio performance this quarter compared to the losses in the fourth quarter of 2018.

After posting their worst December since 1931, U.S. stocks surged to their best January since 1987, followed by further gains in February and March.

Foreign stocks also rebounded sharply in the first quarter.

Fixed-income markets were also strong.

The market rebound was predominately due to a U-turn in Federal Reserve monetary policy.

We welcome questions or comments regarding this newsletter at jlynch@lynchfinancialgroup.com. Lynch Financial Group provides Retirement Wealth Management Services to individuals within 15 years of retirement, retirees, and surviving spouses. We also provide specialized assistance to professionals, fiduciaries and heirs in wealth transfer situations.

The box below contains benchmark (capital market and investment style) performance results. The performance results of our recommended mutual funds and their benchmarks are shown on page 4. Equity markets rebounded sharply higher after declines during the fourth quarter. High quality bonds also had decent returns for the quarter. Most client portfolios had very good returns but underperformed their benchmarks due to below target stock allocations.

First Quarter 2019 Key Takeaways

On the heels of their worst December since 1931, U.S. stocks opened 2019 by scoring their best quarter since the financial crisis. Larger-cap U.S. stocks gained 13.6%, placing the S&P 500 Index's performance in the top decile of quarterly market returns since 1950. Not to be left behind, foreign equities, which were by far the most battered coming out of 2018, generated double-digit returns: emerging-market stocks rose 11.8%, while developed international stocks gained 10.6% and European equities gained 10.9%.

Fixed-income markets were also strongly positive. High-yield bonds earned 7.4% in the first quarter, floating-rate loans were up 4%, and the core investment-grade bond index returned 2.9%. The 10-year Treasury yield fell to 2.39% during March, its lowest level since December 2017, after peaking at 3.24% late last year.

The market rebound was predominately due to a U-turn in Fed monetary policy. After hiking interest rates four times in 2018, including at their mid-December meeting, and indicating further tightening would occur in 2019, Fed officials suddenly reversed course. They emphasized they would be "patient" and pause any further rate increases. And—presto!—stocks are back at their highs of late last summer.

Admittedly, there were other positives for the markets as well: The federal government shutdown, which had started to weigh on sen-

Benchmark Returns (Periods Ended 3/31/2019)

| | Quarter | 12 Months |
|--------------------------------|---------|-----------|
| Large-Cap Benchmarks | | |
| Vanguard 500 Index | 13.6% | 9.4% |
| Russell 1000 Growth iShares | 16.1% | 12.6% |
| Russell 1000 Value iShares | 11.9% | 5.5% |
| Mid-Cap Benchmarks | | |
| Russell Midcap iShares | 16.5% | 6.4% |
| Russell Midcap Growth iShares | 19.6% | 11.3% |
| Russell Midcap Value iShares | 14.3% | 2.8% |
| Small-Cap Benchmarks | | |
| Russell 2000 iShares | 14.6% | 2.0% |
| Russell 2000 Growth iShares | 17.1% | 3.8% |
| Russell 2000 Value iShares | 11.9% | 0.0% |
| Other Benchmarks | | |
| Vanguard Developed Mkts Idx | 10.2% | -4.8% |
| Vanguard Emerging Markets | 11.3% | -6.9% |
| Vanguard REIT Index | 17.3% | 19.9% |
| Vanguard Total Bond Mkt Index | 2.9% | 4.4% |
| Credit Suisse High Yield Index | 7.2% | 5.6% |

Investment Review and Outlook (Cont.)

timent, ended in late January; signals from the U.S.-China trade talks turned more positive; and the likelihood of a “hard Brexit” also seemed to wane.

Portfolio Attribution

Our portfolios generated strong performance for the first quarter, largely driven by their exposure to U.S., international, and emerging-market stocks.

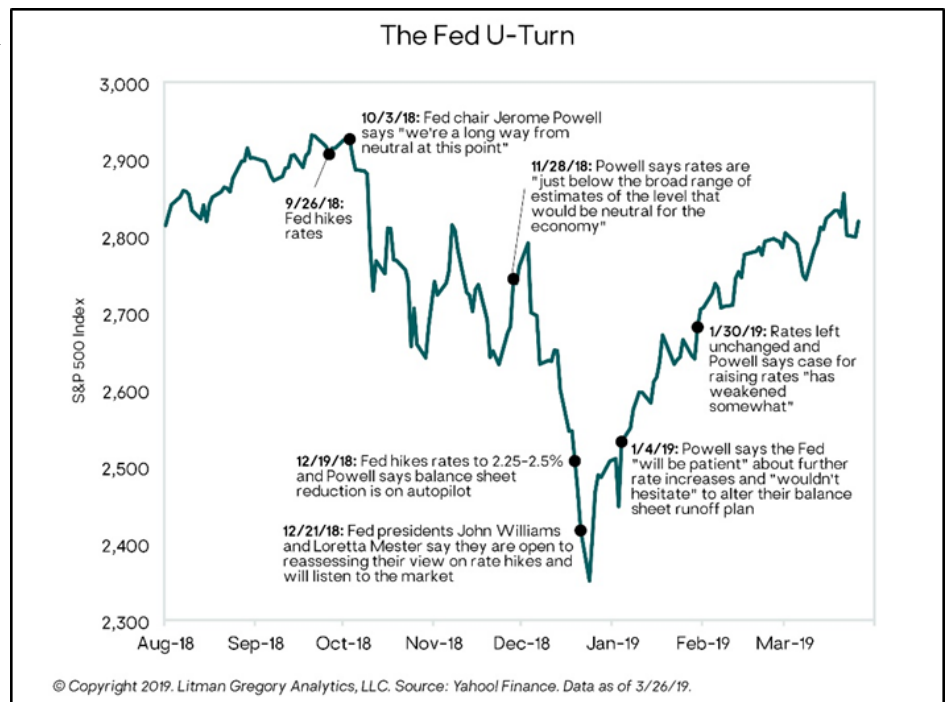
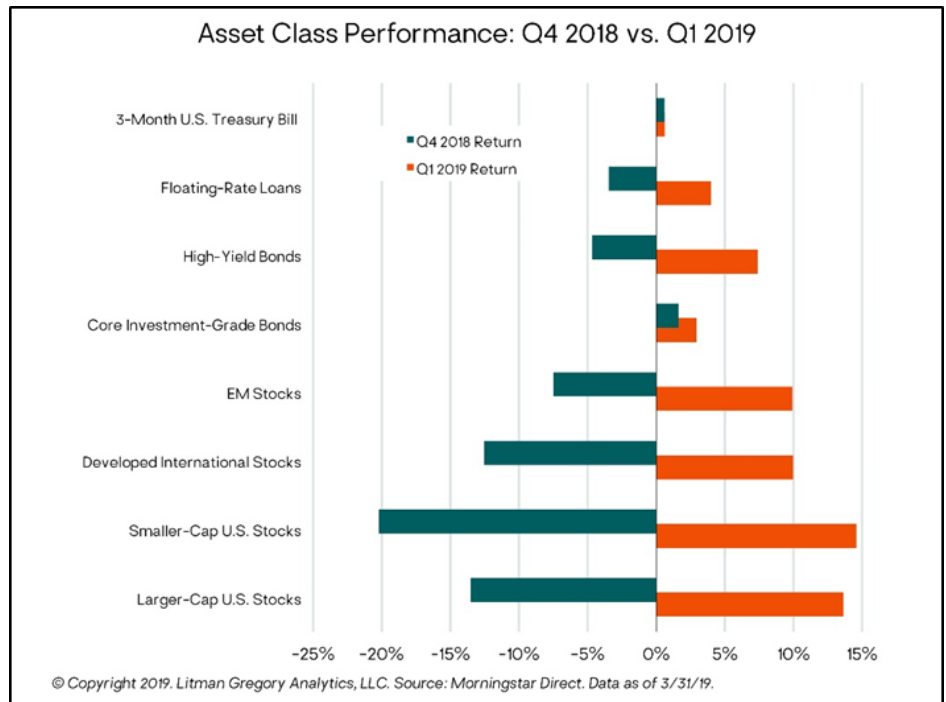
Market Outlook

The obvious question after experiencing such a rebound is, what's next? It's easy to be enamored with the U.S. equity market, especially when the Fed is playing its cards face up. However, the reality is the market rebound was due more to improving investor sentiment and risk appetite—caused largely by the shift in Fed monetary policy—than any meaningful improvements in underlying economic or business fundamentals.

From our vantage point, looking out over our longer-term investment horizon, seemingly little has changed after the roller coaster ride of the last six months. The first quarter of 2019 was certainly a nice respite from the losses of 2018, but we remain prepared for renewed market choppiness as the economic cycle gets later and later (and closer and closer to the inevitable downturn).

While the U.S. economy is still arguably the strongest market, growth expectations have been coming down. At its Federal Open Market Committee meeting on March 20, the Fed downgraded its median GDP growth estimate to just 2.1% for 2019 and 1.9% for 2020, citing the effects of economic slowdowns in China and Europe, fading stimulus from the 2017 Trump tax cuts, and ongoing uncertainty around Brexit and trade policy.

The Fed also announced it would stop the roll-off of Treasury bonds on its balance sheet (quantitative tightening) at the end of September, somewhat earlier than expected. That will leave the Fed holding \$3.6 trillion in securities, around 17% of U.S. GDP. This compares



Investment Review and Outlook (Cont.)

to 6% of GDP before the financial crisis.

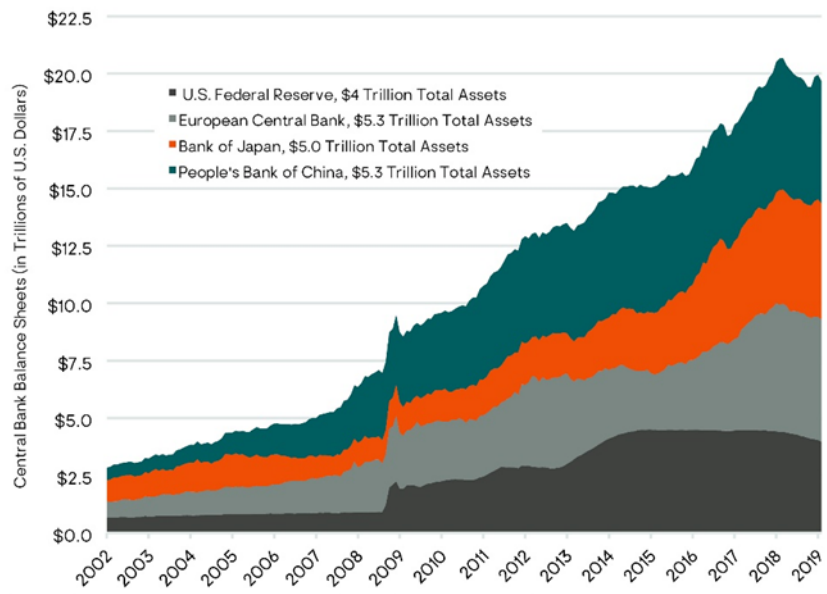
U.S. corporate earnings growth expectations also continue to decline. Consensus earnings-per-share growth estimates for the S&P 500 have dropped from 12% (as of 12/31/18) to just 4.1% as of mid-March. Even with the Fed now on hold, earnings growth will need to improve for stocks to appreciate meaningfully from current levels, given their sharp rebound in the first quarter and high valuations.

On the other hand, there are a number of short-term scenarios that could see further equity gains, in particular in foreign markets. The Chinese government is once again trying to boost their economy via fiscal and monetary policy (including tax cuts, lower interest rates, and expanded bank lending). A revival in Chinese growth would have positive ripple effects across the global economy. It would benefit other emerging markets and Europe in particular, as China is a major importer of their goods. This foreign stimulus, combined with the Fed's policy U-turn, may enable equity markets to extend their positive run for another few years.

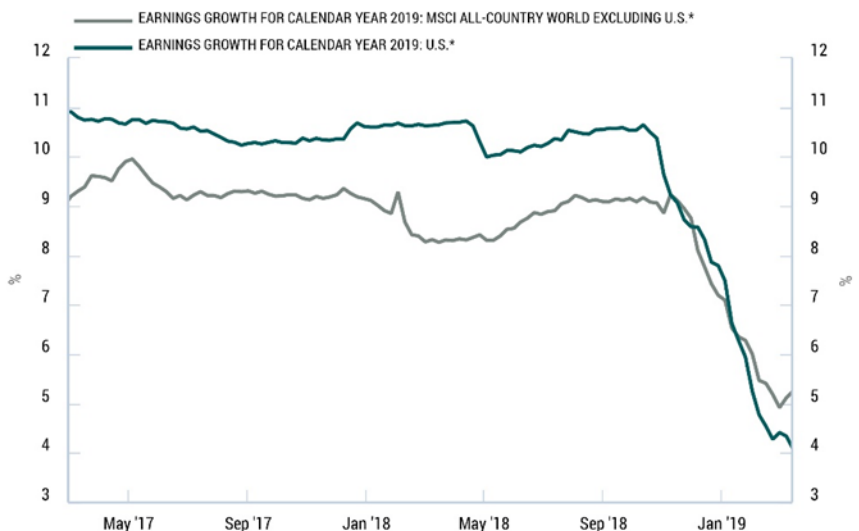
While we'd prefer to see global growth rebound with continued strong performance, we believe it is wise to be prepared (mentally, emotionally, and financially) for shorter-term downside and negative market surprises. Any prolonged downturn will also likely present us with opportunities to tactically increase our exposure to riskier asset classes, such as U.S. stocks, at lower prices and higher prospective returns.

As always, we appreciate your trust and confidence in our investment discipline, and we work hard every day to continue to earn it.

Major Central Bank Balance Sheets Are 4x Higher Than in 2007



Analyst Expectations for Earnings Growth Are Quite Muted



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LFG Recommended Mutual Funds

Performance Results for Funds and Benchmarks

| Fund Name ¹ | Benchmark (BM) ² | % Returns For The Periods Ended March 31, 2019 | | | | | | | |
|---|---|--|-------|-----------|-------|--------------|-------|--------------|-------|
| | | 3 Months | | 12 Months | | 3 Yrs Annlzd | | 5 Yrs Annlzd | |
| | | Fund | BM | Fund | BM | Fund | BM | Fund | BM |
| Baron Emerging Markets ³ | Vanguard Emerging Markets Index | +12.0 | +11.3 | -9.5 | -6.9 | +9.8 | +9.7 | +3.9 | +3.4 |
| Parametric Emerging Markets ³ | Vanguard Emerging Markets Index | +7.2 | +11.3 | -9.4 | -6.9 | +7.0 | +9.7 | +1.0 | +3.4 |
| Schwab Fundamental Emerg Mkts ³ | Vanguard Emerging Markets Index | +7.0 | +11.3 | -7.3 | -6.9 | +12.5 | +9.7 | +3.5 | +3.4 |
| Tweedy Browne Global Value | Vanguard Developed Markets Index | +8.2 | +10.2 | +3.1 | -4.8 | +8.0 | +7.5 | +4.0 | +2.6 |
| Artisan International | Vanguard Developed Markets Index | +10.3 | +10.2 | -2.0 | -4.8 | +6.5 | +7.5 | +2.5 | +2.6 |
| Litman Gregory Masters Select International | Vanguard Developed Markets Index | +15.6 | +10.2 | -7.4 | -4.8 | +4.0 | +7.5 | -0.1 | +2.6 |
| Harbor Capital Appreciation | Russell 1000 Growth iShares | +17.5 | +16.1 | +11.5 | +12.6 | +18.5 | +16.3 | +13.9 | +13.3 |
| Jensen | Russell 1000 Growth iShares | +14.5 | +16.1 | +17.3 | +12.6 | +15.3 | +16.3 | +13.1 | +13.3 |
| BBH Core Select | Vanguard 500 Index | +11.5 | +13.6 | +7.4 | +9.4 | +9.4 | +13.4 | +6.7 | +10.8 |
| Schwab Fundamental US Large Co ³ | Vanguard 500 Index | +12.4 | +13.6 | +6.8 | +9.4 | +11.1 | +13.4 | +8.7 | +10.8 |
| Dodge & Cox Stock | Russell 1000 Value iShares | +10.3 | +11.9 | +4.3 | +5.5 | +14.1 | +10.3 | +8.7 | +7.5 |
| Vanguard Windsor II | Russell 1000 Value iShares | +11.9 | +11.9 | +5.4 | +5.5 | +10.6 | +10.3 | +7.2 | +7.5 |
| FPA Crescent | 60% Russell 2500 Index; 40% Vang Tot Bd | +10.8 | +10.7 | +3.6 | +4.4 | +7.7 | +8.3 | +5.0 | +5.7 |
| PIMCO All Asset | Barclays TIPS Bond iShares | +5.4 | +3.2 | -0.1 | +2.6 | +7.1 | +1.6 | +3.1 | +1.8 |
| PIMCO All Asset All Authority | 50% S&P 500/50% Barclays TIPS Bond iShares | +3.7 | +8.4 | -2.8 | +6.0 | +5.5 | +7.5 | +0.9 | +6.3 |
| Westwood Income Opportunity ³ | 25% S&P 500, 25% NAREIT All Equity, 25% Citigroup Treasury Bill 3 mo., 25% Citigroup Treasury 10 Yr | +7.7 | +8.5 | +4.8 | +9.6 | +6.1 | +5.8 | +4.7 | +6.2 |
| Osterweis Strategic Income | Vanguard Total Bond Index | +3.6 | +2.9 | +2.7 | +4.4 | +6.4 | +1.9 | +3.5 | +2.6 |
| Doubleline Total Return | Vanguard Total Bond Index | +2.0 | +2.9 | +4.3 | +4.4 | +2.7 | +1.9 | +3.3 | +2.6 |
| PIMCO Total Return | Vanguard Total Bond Index | +2.8 | +2.9 | +3.8 | +4.4 | +2.8 | +1.9 | +2.9 | +2.6 |
| Vanguard Intermed Tax-Exempt | Vanguard Total Bond Index | +2.6 | +2.9 | +5.1 | +4.4 | +2.3 | +1.9 | +3.2 | +2.6 |
| Loomis Sayles Bond | 1/3 CSFB HY, 2/3 Vang Tot Bond | +5.2 | +4.4 | +2.0 | +4.8 | +5.1 | +4.2 | +2.5 | +3.2 |

¹Funds were selected using the LFG Proprietary Mutual Fund Rating SystemSM. This system is based on extensive research using both quantitative and qualitative factors. The system seeks to identify top funds in each asset class and investment style. LFG typically combines 8 to 10 funds in client investment portfolios.

²iShares exchange traded funds were used where available and respective Russell indices were used for the other periods.

³Funds which were not recommended for entire 5 year period.

The above table reflects past performance and should not be considered indicative of future results. The results contained in this schedule were obtained from sources we believe to be reliable. We cannot, however, guarantee the accuracy of this information.