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FIRST QUARTER COMMENTARY
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The stock market had its largest quarterly gain in nearly ten years during the first quarter, reversing most of the losses incurred during the fourth quarter. Stocks had strong gains across the board with growth stocks outperforming value stocks, a reversal of fourth quarter performance. International stocks had good returns, but they continued to underperform U.S. stock indices.

Hedge fund returns were generally positive, but quite subdued relative to the overall market, which is expected. Long / short equity funds, in general, had the best returns compared to other strategies.

Interest rates declined during the quarter as growth expectations fell, inflation continued to be very low and the Federal Reserve halted interest rate increases. The yield curve for treasury securities flattened and is inverted for two to five year maturities. The following are treasury yields for various maturities:

MATURITY	9/29/18	12/31/18	3/31/19
3 Month	2.19%	2.45%	2.39%
2 Year	2.81%	2.50%	2.27%
10 Year	3.05%	2.68%	2.42%
30 Year	3.19%	3.01%	2.82%

Slowing economic growth globally, especially in Europe and China, contributed to the Fed freezing interest rate increases and announcing they will suspend the sale of their bond inventory, which was reversing quantitative easing.

In our last commentary, we stated that we thought the market would rally from the December lows, but the strength of the rally was surprising. The sudden and strong reversal of stock prices seems to be based primarily on the reversal of the Fed's plan to increase interest rates. In addition, we may be closer to a trade deal with China and the reduction or removal of tariffs on Chinese products. Growth in the U.S. and globally continues to slow from a year ago and profit margins appear to be under pressure primarily because of wage increases, so the Fed and trade would seem to be the primary drivers of this rally.

Many of the other issues we referred to in our fourth quarter commentary which appeared to cause the market decline are still present. Bond yields are signaling slower economic growth. The ten-year German government bond yield turned negative in late March for the first time since 2016. The yields on two to thirty year treasury securities declined meaningfully from their September highs and, in fact, the yield on the ten year treasury fell below the yield on three month t-bill for a brief time in late March.

Central banks are now taking accommodative actions to spur economic growth. The most positive scenario would be a removal of tariffs, a trade agreement with China, no new trade wars or tariffs and continued low interest rates. That scenario would help underpin and / or reignite growth. Given stock indices have gained 10% - 19% this year, and first quarter earnings guidance was disappointing, we need positive economic news to provide fuel for higher prices. Stock prices appear to be reasonably valued at this time. For portfolios that have become overweighted in stocks (underweighted in bonds), we are using this as an opportunity to rebalance.

There has been a fair amount of press coverage about investing in qualified opportunity zones as a means of deferring / reducing or potentially eliminating capital gains taxes. This legislation was part of the 2017 tax law bill. Based on the 2010 census each state was allowed to identify areas where the poverty rate is greater than 20% of the population and the median family income is less than 80% of the state or metropolitan area median. There are 8,700 zones in all 50 states, D. C. and U.S. territories. The tax on capital gains can be deferred until year end 2026 if the investment is made in an opportunity zone within 180 days of realization of the gain. If the investment is held for five years 10% of the tax is forgiven. If held for seven years 15% of the tax is forgiven. The total gain on the new investment will be tax free if held for ten years.

There are many other aspects of this tax law which we will not go into at this point, and the IRS will be issuing clarifications on a number of issues in the coming weeks. We have had discussions with a number of firms who are forming investment partnerships to take advantage of this new law. Our early conclusion is that this law will have limited appeal to many of our clients and the "rush" to buy real estate in these areas will likely push up the purchase price of such real estate.

We plan on sending a more detailed explanation of the law in the coming months, and are happy to discuss at any time.