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THIRD QUARTER COMMENTARY
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The stock market traded in a narrow range during the third quarter. Large cap stocks had the best returns gaining about 1.5%. Emerging market stocks had a particularly difficult quarter losing over 5% and small cap growth stocks lost over 4%. The S&P 500 Index gained 1.7% and the performance of value stocks generally improved relative to growth stocks. Hedge funds had a wide range of returns depending on their investment focus.

The S&P 500 earned 20.55% year-to-date. Mid cap growth stocks led the way with a return of over 25% (third quarter slightly negative) followed by large cap growth stocks. Emerging market stocks were weakest with a gain of less than 4%. Foreign stocks also lagged with a return of less than 13%. Both trailed most U.S. indices. For the twelve months ending September 30th, the S&P 500 gained 4.25% and the Russell 2000 small cap index lost 8.9%.

Interest rates continued to decline during the quarter due to slowing economic growth, Fed rate reductions and tepid inflation. The yield curve is inverted for the three month versus the ten year maturity, which is often an indicator of a future recession. The following are treasury yields for various maturities:

MATURITY*	12/31/18	6/28/19	9/30/19
3 Month	2.45%	2.12%	1.82%
2 Year	2.50%	1.73%	1.62%
10 Year	2.68%	2.00%	1.68%
30 Year	3.01%	2.53%	2.12%

*Source: Factset

Global equity markets had swings from gains to losses and back again over the past few months, mainly because of three issues: trade policies, interest rates and an economic slowdown. Tariffs and the uncertainty caused by trade policies have led to slower economic growth. China has been a growth engine for world economies and the slowdown in China's growth rate has reverberated globally. Despite the uncertainty caused by tariffs, trade policies and slower economic growth, the expectation that the Federal Reserve will continue to reduce interest rates caused the market to rally during the quarter. While lower rates make stocks more attractive relative to bonds, this does not alter the effects of trade policies, which will lead to some combination of lower profit margins and/or higher prices.

In the U.S., the Institute for Supply Management's manufacturing index (ISM) has fallen below 50 for the past two months. This index, currently at its lowest level since 2009, indicates a contraction in manufacturing activity. Comments from manufacturers also note a decrease in business confidence. Manufacturing is only 15% of U.S. economic activity, but it is a key driver of capital expenditures.

The main component of U.S. economic growth is consumer spending. Consumer confidence has declined recently, but remains strong as has consumer spending. Lower interest rates should be helpful to consumers, especially for housing. Market pundits and economists have been actively discussing whether we are heading for a recession in the U.S. We are still not convinced we will have a recession in the next year, as there are too many variables that will affect economic growth to make an accurate prediction. One major variable is trade policy. It is impossible to know whether tariffs will be increased, reduced or disappear in coming months. What is clear to us is global economic growth and U.S. growth have slowed in the last six months and central banks are increasing stimulus to try to improve growth prospects. Economists are like meteorologists – they are often wrong, though we do not believe predicting future growth is easy with so many uncontrolled variables – like trade policy.

We are not expecting robust returns from stocks over the next year, just as the past twelve months have produced weak or negative returns. There is a chance of another market correction or worse, but we currently do not see a repeat of 2008. Despite low current interest rates, we continue to maintain balanced accounts in order to stabilize returns and have assets to make distributions that are not subject to volatility.

At this point in the economic cycle, and with the uncertainties outlined above, we believe a cautious approach to investing is warranted.