Dear Clients and Friends,

The strong start to the year that was seen during the first quarter of 2019 continued through the balance of the first half with the U.S. stock market posting the best performance for the first half of any year since 1997. The S&P 500 had a total return of 4.3% in the quarter. Other major asset classes saw mixed performances in the three months. Emerging markets (as measured by the MSCI Emerging Market exchanged traded fund) were up only 0.7% while the S&P Goldman Sachs Commodity Index declined 1.4%. The U.S. bond market (as measured by the Bloomberg Barclays US Aggregate Bond Index) returned 2.8% and the gold price rallied 9.2% in the quarter both spurred by expectations of an easier monetary policy in most quarters of the world.

Market Outlook

We remain constructive on the outlook for risk assets as we believe that an easy money tailwind coupled with reasonable equity valuations and continued middling economic growth should cause further increases in prices. The U.S. stock market has moved back to being "liquidity driven" as investors anticipate easier monetary conditions in the coming months. Earnings estimates have been declining since the beginning of the year (with the consensus now expecting down year-over-year earnings for the second quarter) so the rally this year has been solely the result of investors' willingness to pay a higher multiple on those earnings.

1.) *Easy money*: The monetary backdrop has continued to improve in recent months. The Federal Reserve has become much more "balanced" in their public comments and the Federal Funds futures market is now discounting 2-3 rate cuts over the balance of 2019. The rate on the U.S. 10-year Treasury note has declined to 2.00% from 3.25% nine months ago. Current mortgage rates of 2.75-3.75% on most loans are resulting in an increase in refinancing activity and should be supportive to the U.S. housing market. The naming of Christine Lagarde as the likely successor to Mario Draghi at the European Central Bank has been read by the market as ensuring European monetary policy will remain loose.

2.) *Valuations*: The 5.9% earnings yield and the 1.9% dividend yield available in the S&P 500 at present have become increasingly more attractive as U.S. 10-year Treasury yields have fallen to 2.0% and many European bonds yield negative rates (**Charts 1 and 2**). We expect this situation to continue as deflationary pressures around the world coupled with slowing growth will keep downward pressure on market interest rates and encourage further moves by central banks to ease monetary policy.

3.) *Economy*: We do not expect to see a U.S. or global recession in the next year. Growth in the U.S. has clearly slowed in recent months, but employment and wage growth remain reasonably strong. The index of leading indicators has resumed its rise after plateauing earlier this year **(Chart 3)**. Most prior recessions have been preceded by several quarters of declines in this index. The global outlook is mixed but not negative. Growth has clearly slowed, but expectations remain for better than 3% growth this year and next year.

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Chart 1: S&P 500 Earnings Yield Versus 10-Year Treasury Yield

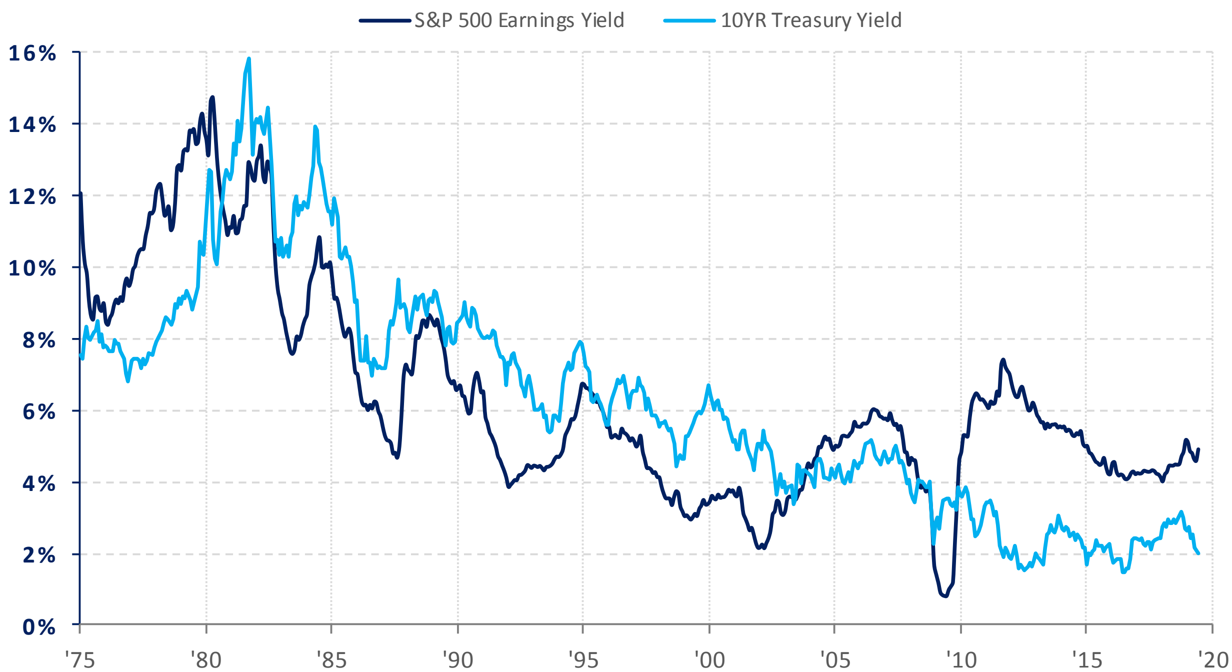

Chart 2: S&P 500 Dividend Yield Versus 10-Year Treasury Yield

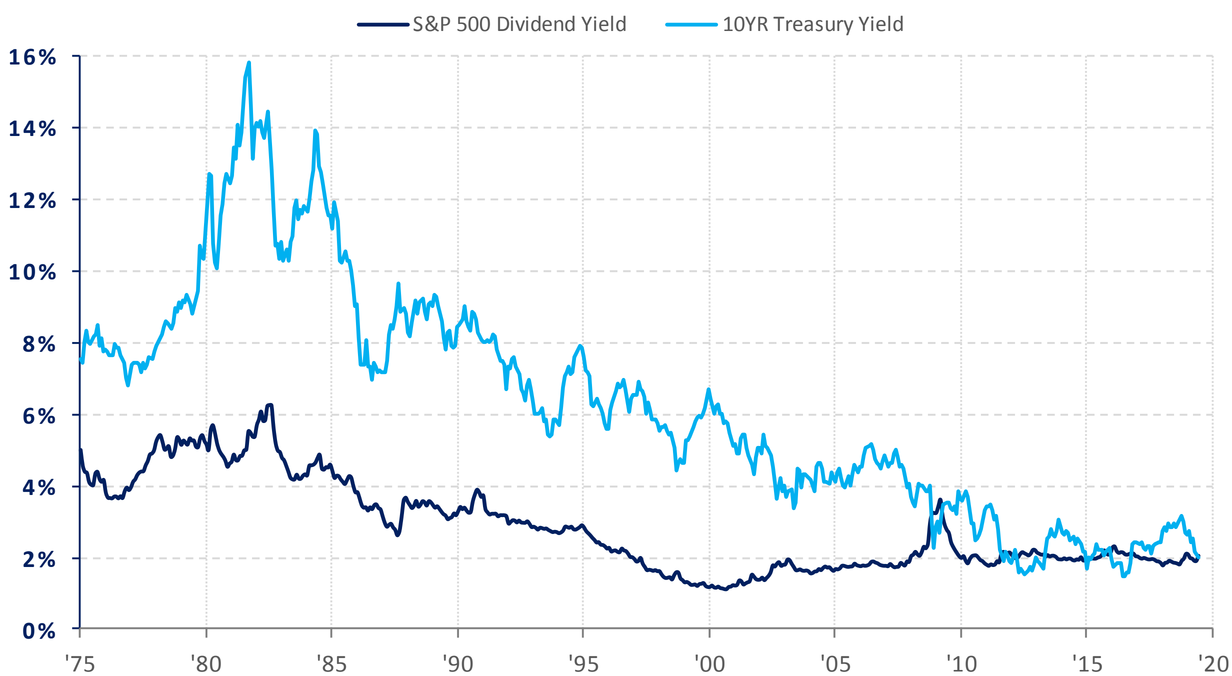

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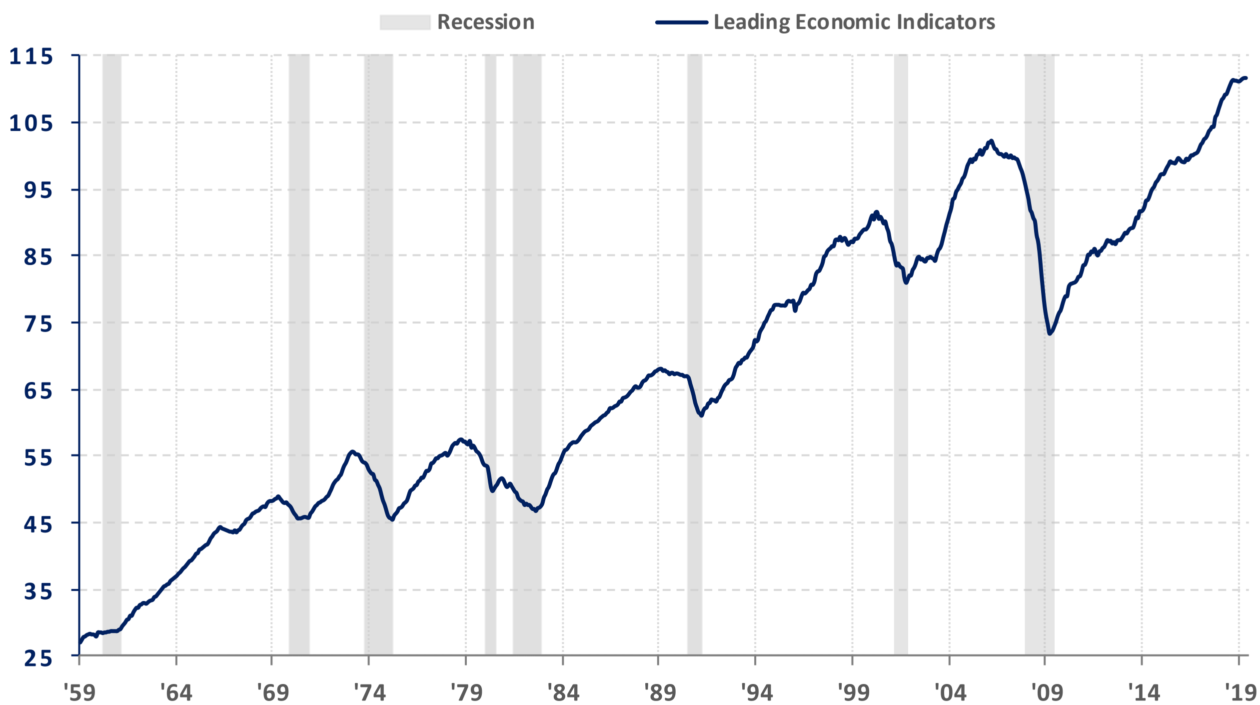
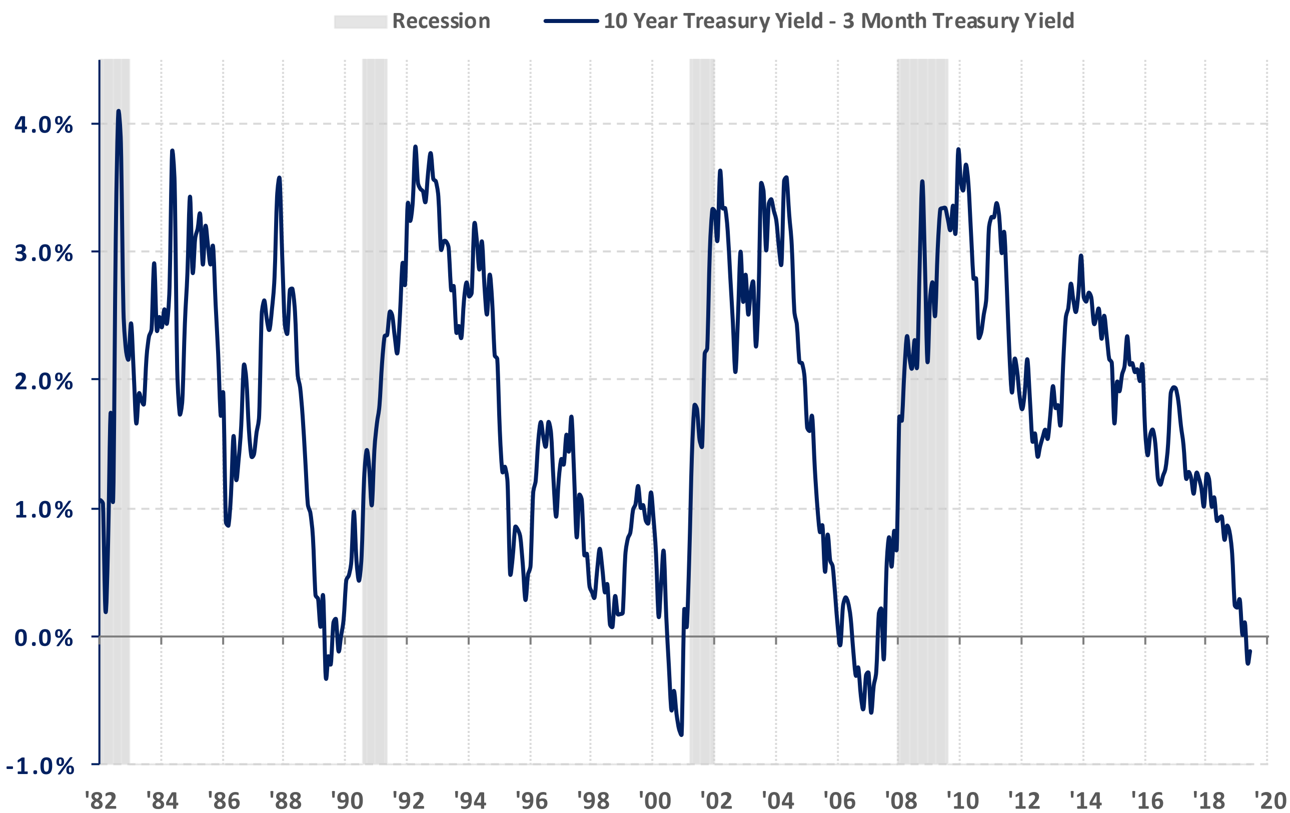
Chart 3: Long-term Historical Cyclically Adjusted PE Ratio with Recessions



These arguments are not to say that there are no risks to the outlook. The inversion of the 3-month versus 10-year segments of the U.S. yield curve has preceded the last three recessions **(Chart 4).** Those segments have now been inverted for the last two months. We are very wary of using the four most dangerous words in investing…"this time is different", but other parts of the yield curve have actually steepened at the same time which was not the case prior to those recessions. The inversion of the 3-month/10-year curve could be attributed to the Federal Reserve overshooting in its tightening last year. The behavior of the curve will be interesting if/when the Fed begins cutting rates.

Other significant risks to a constructive outlook are further escalation in the U.S./China trade war and a "no-deal Brexit". Both of these could further slow global economic growth with a negative impact on profits.

Chart 4: 10-Year Treasury Yield Minus 3-Month Treasury Yield with Recessions



Portfolio Themes

Our investing themes have remained consistent this year: add non-U.S. stock exposure at the margin, lengthen duration in high-quality fixed income, and add some gold.

U.S. stocks have significantly outperformed the rest of the world over the last ten years. However, we believe that a lot of that has been due to the 40% rally in the dollar capped by exuberance last year over the fiscal stimulus (**Chart 5**). The relative valuation difference between equities in the U.S. and in the rest of the world declined during the sell-off in the fourth quarter of 2018, but it remains higher than the prevailing levels in 17 of the last 20 years (**Chart 6**). We expect that an easier Fed and the fading of fiscal stimulus as we move through 2019 may allow the rest of the world to close its performance gap with the U.S.

Chart 5: US Stock Market to World Stock Market Excluding US vs. US Dollar Index

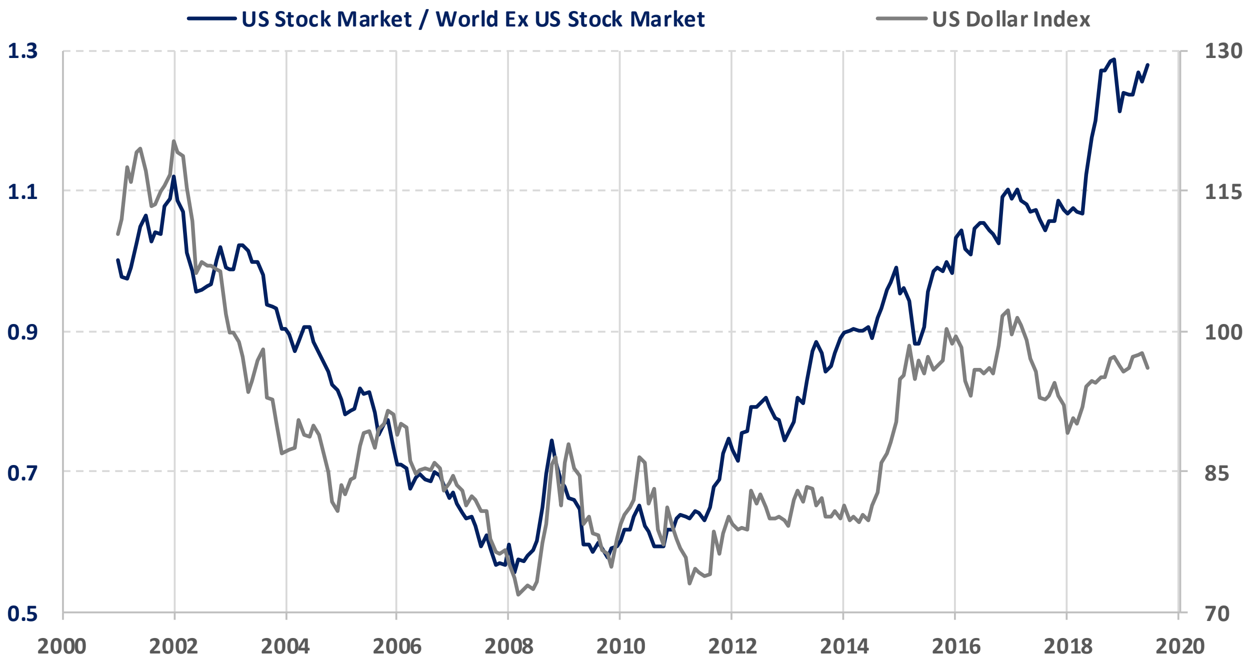
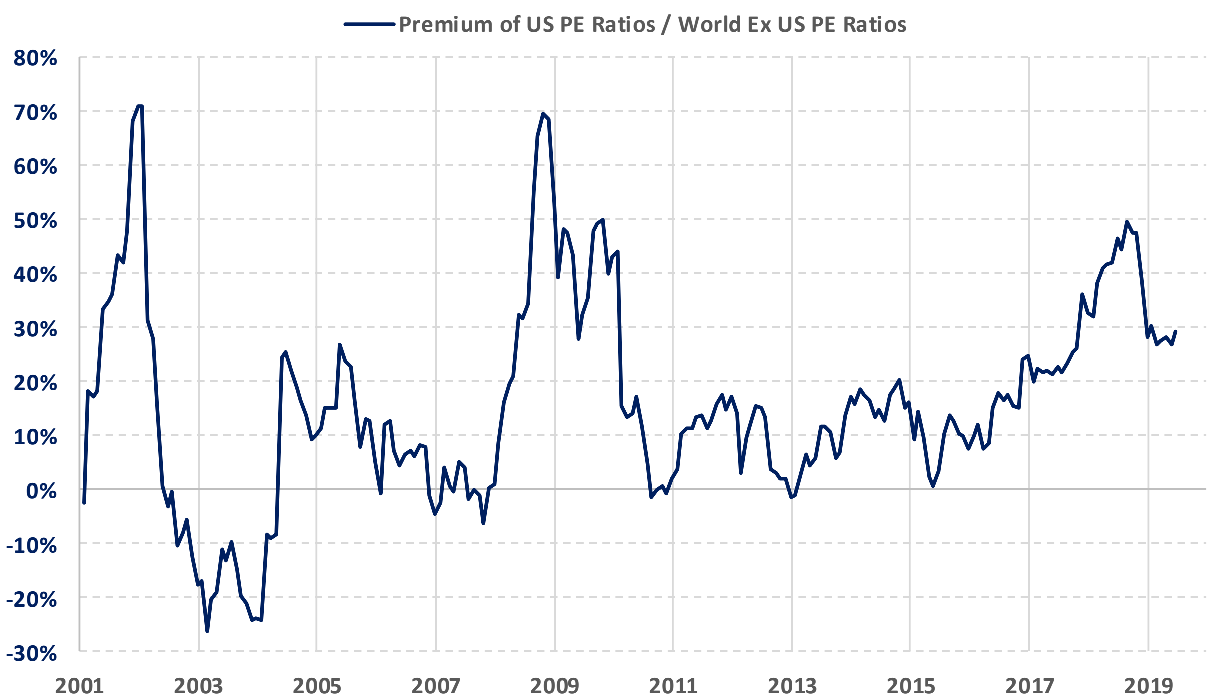


Chart 6: Premium of US Price-to-Earnings over World Price-to-Earnings Excluding US



As already discussed, we believe that the global interest rate outlook remains benign. However, we do not view the current market spreads in the corporate and municipal bond markets as adequately rewarding the potentially higher risk in those segments. We continue to focus our fixed income exposures primarily on intermediate- and long-term U.S. Treasuries and high-quality corporates.

We started adding gold to portfolios in early October of last year as we believed that the Fed and the market had overshot on interest rates and were going to be forced to reverse course. Historically gold has performed well in times of falling real interest rates **(Chart 7)**. We are not "gold bugs" but believe that gold can play an important role in a portfolio at certain times. We believe now is one of those times.

Chart 7: Gold ($/oz) Versus 10-Year and 2-Year Treasury Real Rates

Borrowing/Refinancing Opportunity Gets Even More Attractive

We wrote last quarter about the borrowing/refinancing opportunity that had returned with the recent decline in interest rates; that opportunity has become even more attractive over the last three months. Bank NY/Mellon, Pershing's parent company, has recently had 30-year fixed mortgage rates as low as 3.50% and 15-year fixed mortgage rates as low as 2.875%. The bank also has some interesting alternative lending products that often times allow full deductibility of the interest expense for larger borrowing needs. We would be happy to introduce you to their loan specialists if you would like to explore whether there is an opportunity to lower the interest rate on any personal or commercial borrowings.

Company Developments

The biggest recent development at BAM was Jamie Haire joining the firm in April. We are very excited to have him on the BAM team! He has already been making significant contributions to our portfolio management efforts and we look forward to his growing role in the future of the firm.

Lisa, who has gone back to school, has found that she has a fair amount of availability in her school schedule and so is continuing to work for us part-time which we are very happy about!

Administrative Items

We continue to reinvest in Brave Asset to improve our client service efficiency and to ensure we are very well positioned to serve our clients over the coming decades. The following include a few new features and a reminder on a couple of other services that are available for you.

Tamarac portal: We recently rolled out a new client portal through Tamarac (our recently adopted new reporting and billing software program). You should have received instructions with your user ID and password. Please contact us if you need help setting up your portal.

The portal will allow you to:

1.) Access quarterly invoices and BAM-produced reports and letters
2.) Exchange account forms with us
3.) Store digital versions of important documents

Also, Pershing and Tamarac have just put in place an integration that will enable Pershing to automatically upload annual tax documents and monthly statements to your portal which we expect will make it easier for you and your tax professional to access essential documents.

DocuSign: We started using DocuSign during the most recent quarter which permits the digital signing of account paperwork and other forms. We expect this to significantly streamline the opening of new accounts and other tasks. We must have current cell phone numbers and email addresses on file to use the software.

Mobile deposit: You can now mobile deposit checks through the NetXInvestor app available on your phone. Please send us an email letting us know when you use the function so that we can confirm receipt of the funds. If you need assistance, please call our office and we will help you navigate it.

Consent forms: We will be sending you new account consent forms this summer that we request that you complete. They are essential to ensure we have accurate and current information on with whom we may share your account information (Power of Attorney, spouse, tax advisor, attorney, etc.).

Financial plans: We can work with you to build a financial plan with the help of a program called MoneyGuidePro. We have found this to be a very effective tool in helping clients get a better understanding of where they are on their path to financial security.

Everplan: Everplan is a very user-friendly and intuitive secure online system for storing personal information and financial data and documents. You can store information on subjects such as your home and pets, emergency contacts, and funeral preferences. You can also upload documents including insurance policies and estate plans. Once you have established a plan you can "deputize" specific people to have access to selected areas of it. For example, you could give access to certain areas to the executor of your estate and give access to other areas to your children. Please click on this link here to watch a video about Everplans.

As always, we welcome your comments and questions. Please don't hesitate to call, visit or email at any time.

Scott, Brett, & Dave