NEWSLETTER – MARCH 2019

MARKET TRENDS 3.31.19

Asset Class	QTD	1 Yr
US Stocks		
Large Cap	13.55%	9.39%
Mid Cap	14.48%	2.50%
Small Cap	14.64%	2.09%
International Stocks		
Developed Markets	10.34%	-4.03%
Emerging Markets	9.88%	-9.18%
Fixed Income		
Taxable Bonds	2.29%	4.13%
International Bonds	2.99%	5.01%
Municipal Bonds	2.42%	4.69%
Alternatives		
Emerging Markets Bonds	6.79%	3.28%
Energy MLPs	14.48%	6.27%
Floating Rate	7.59%	6.53%
Preferred	7.81%	3.21%
Gold	0.63%	-3.01%
Real Estate	16.97%	19.16%

Source: Factset

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ANNOUNCEMENTS

- We are very pleased to announce that Howard Corey has joined the Shorepoint team. He will be working closely with both of us to deliver world-class operations and client services to our clients. Howard was most recently the Chief Operating Officer at a SEC registered Investment Adviser where he was responsible for managing the operations and client service functions. He earned a Bachelor of Arts degree in Economics from Roanoke College and an M.B.A. from Vanderbilt University. He serves on the board for the Key Program, Inc. and lives in Easton, MA with his wife Stacy and two children.

- Over the last year, Shorepoint rolled out a new mobile app to allow our clients to access their accounts in a more convenient manner. It is available in the Apple and Google App stores. If you need any assistance, please don't hesitate to call our office.

CHRISTMAS EVE REBOUND

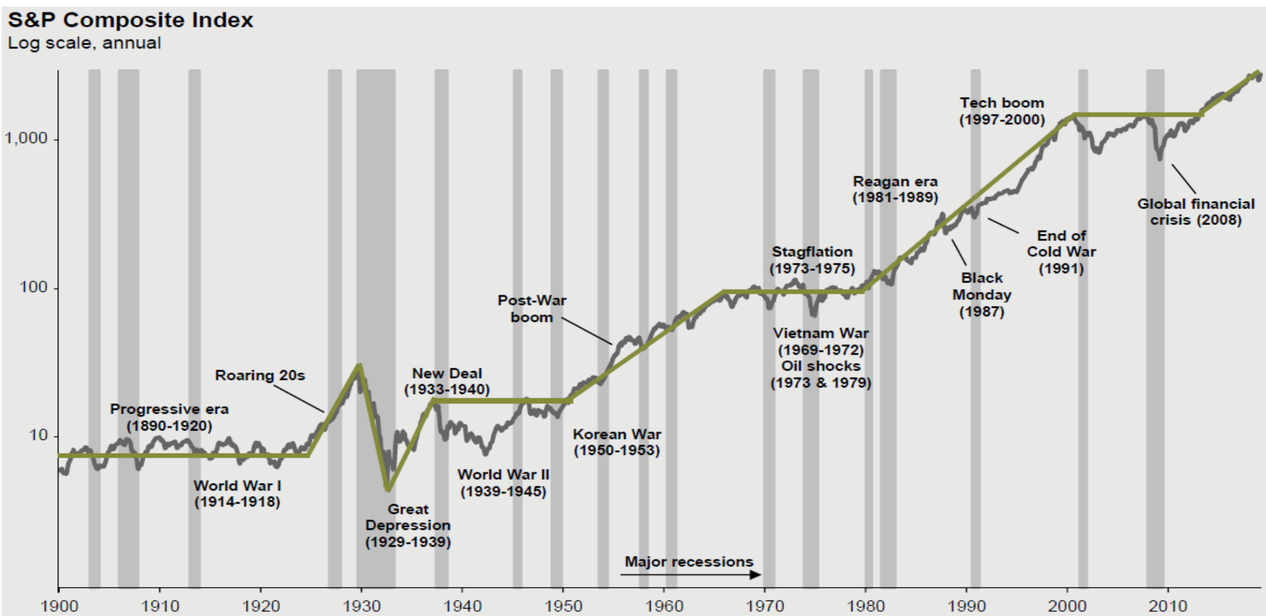
The fourth quarter of 2018 ended with a pernicious correction. U.S. equity markets fell almost 20% making a near-term bottom on December 24th. Investor sentiment had turned very negative, and selling was indiscriminate. Since Christmas Eve, equity markets here in the U.S. and abroad have made a v-shaped recovery. The minor losses of last year have been recouped and the market has raced ahead testing the previous highs posted in 2018. With a more accommodative Federal Reserve ("Fed"), hope for a China-US trade deal, and lower but not shrinking earnings, fear has abated and volatility has dwindled considerably leaving markets floating ever higher.

Typically we expect a re-test, which simply means markets head down again and approach the previous low. This action shakes out a lot of short term or "scared money". Picture Fred Sanford clutching his chest, eyes heavenward, saying "This one's the biggie!" We should not be surprised when markets correct. We are in the midst of a very strong rebound from a sharp correction. That's good news. But the lack of volatility and steady march higher is likely to be met someday with the inverse: volatility and a downward bias, though hopefully it will be ephemeral.

The key is not to get too high with markets, nor too low when the inevitable correction occurs. The markets make us money over time - usually via wild swings with modest but consistent gains when we look at our portfolios over the long-term. It's the dramatic backing and filling process that tests us, tries our nerves, but the volatility is almost as natural as weather, almost boring in its predictability if we change from a CNBC hourly view to a 20-year chart. It's worth trying to do that as it makes us all more effective investors.

LARGER PICTURE - A 10 YEAR REBOUND

As we widen our lens, it's impossible to ignore that we are ten years into a steady and historic rebound from the March 2009 low. The Great Recession of 2007-2009 was one of the scariest financial moments in U.S. history, rivaled only by the Great Depression which took place almost a century ago. Unemployment was almost 10% back in 2008. Oil prices were high at around $100 per barrel and Goldman Sachs and Jeremy Grantham were convinced oil would go to $300 as we ran out of fossil fuels in response to growing demand. Instead, oil fell to $38 and has not gotten back to $100 in the last decade.



Today we have unemployment below 4%, a growing economy, low interest rates, reasonable gas prices, tax cuts and a deregulation-minded administration. However, investors remain worried that corporate earnings have peaked, that the bull market is getting long in the tooth, and that the inverting yield curve presages a looming recession. These concerns are valid and reasonable. But we'd like to make a few points:

1. Markets don't care about calendars. They will run as they will, and we don't advocate big market calls that rely on timing the market versus "time in" the market, which usually rewards investors for patience and fortitude over imagination.

2. This may change at any time, but currently the Fed could only be described as cautious in its desire to hike rates, which is helpful in the short-term to stimulate commerce. Many Fed critics believe that Chairman Powell has been brow-beaten by the President to be excessively dovish, and that there is a price to be paid on rigged low rates-one we have yet to really pay.

"Since Christmas Eve, equity markets...have made a v-shaped recovery."

"...we are ten years into a steady and historic rebound from the March 2009 low."

3. We have the most market-focused President that we can recall in recent history. Sources close to the President relay how much he views the markets as his score or report card! Certainly the performance of the markets has been mentioned in many of his speeches (especially when the market is up)!

There's a saying we like to misquote: history may not repeat, but it often rhymes. Market cycles are as unavoidable as Nor'easters in New England. We can't escape volatility. All we can do is prepare. So we are ever focused on managing portfolios with diligence, persistence, and care. We look for opportunities to harvest tax losses when we can, while also being assiduously focused on valuation and not overpaying for returns.

WORRYWARTS: A LIST OF OUR ANXIETIES

- Slowing earnings growth in 2019 but still growing at a healthy pace.
- Elongated pace of trade negotiations with China – getting closer!
- Inversion of the short end of the yield curve – does it predict a recession or not?
- Slower global economic growth:
    - European Central Bank employing stimulative monetary policy (low interest rates and quantitative easing) to accelerate economic growth.
    - Chinese government pumping money into the economy - recent data showing improvement.
- Any material policy change by the Fed will likely add significantly to market volatility.

Investors express concerns about another 2008 recession. Yes, recessions are inevitable but we don't see any signs right now. However, we will likely have more corrections (a pullback of 10% or more from the highs) which is both normal and necessary for healthy equity markets. Historically, corrections occur on average once a year but we had two in 2018! Although unpleasant, corrections provide investment opportunities. This is one of the reasons that we added 5% to equities in client accounts this past January.

LOOKING FORWARD

Overall, Shorepoint is constructive on the current investment landscape. Low interest rates, solid corporate margins, significant corporate cash returned to shareholders (dividends and buybacks), low inflation and steady economic growth have driven strong equity returns since the Great Recession. Valuations as measured by price/earnings multiples are in line with historical averages and are not excessive. We continue to invest in a variety of investments across asset classes that potentially offer sound long-term, if not spectacular, returns to patient investors.

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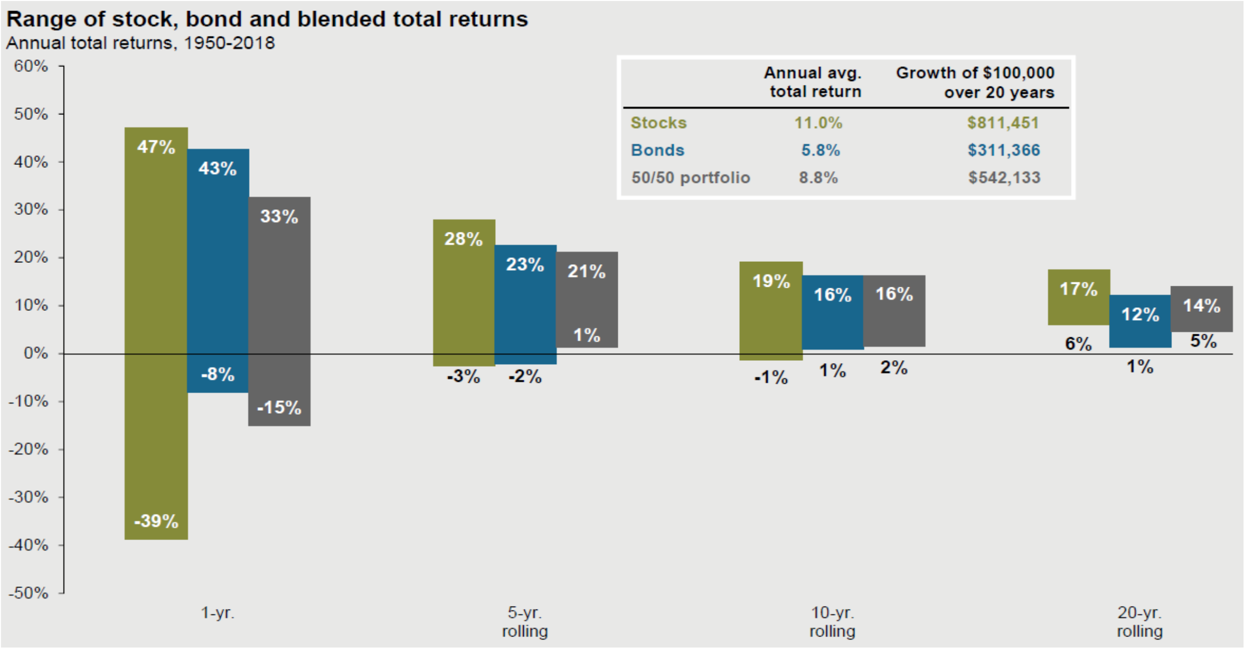
"...Fed could only be described as cautious in hiking rates..."

"We have the most market-focused President..."



As contrarians, we have added and continue to add to international, developed market equities and emerging market equities/bonds, which we feel are still undervalued even with the 2019 rebound. We are employing a "buy the dips" approach by adding to high-quality, attractively-valued companies that have robust cash flow, strong earnings growth prospects and solid balance sheets. We are investing more in the underperforming healthcare sector which has been in the cross hairs of politicians and allocating to selective special situations that offer favorable risk-adjusted return potential. Individual stock price volatility enables us to perform tax harvesting in companies that are temporarily depressed but that we feel are excellent long-term investments such as CVS Health and Kraft Heinz.

The bond side of our portfolios has rebounded strongly with the Fed moving to the sidelines on further interest rate increases in the near-term. The Fed's policy change has allowed us to reinvest some of our client's money market balances into higher-yielding bonds. Overall, our clients continue to benefit from our diversified approach to producing income by investing in Emerging Market Bonds, Floating Rate Loans, REITs, Preferred Stocks, etc. instead of investing just in U.S. treasuries.

Shorepoint's core philosophy is to manage diversified portfolios of quality, reasonably-valued assets based on your investment objectives and risk tolerance. This has been and will continue to be a successful investment strategy over the long-term. We seek to take advantage of opportunities as they arise and generate attractive long-term returns to help our clients reach their financial goals. As always, we are available to discuss your concerns and answer your questions.

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"...our clients continue to benefit from Shorepoint's diversified approach to producing income..."