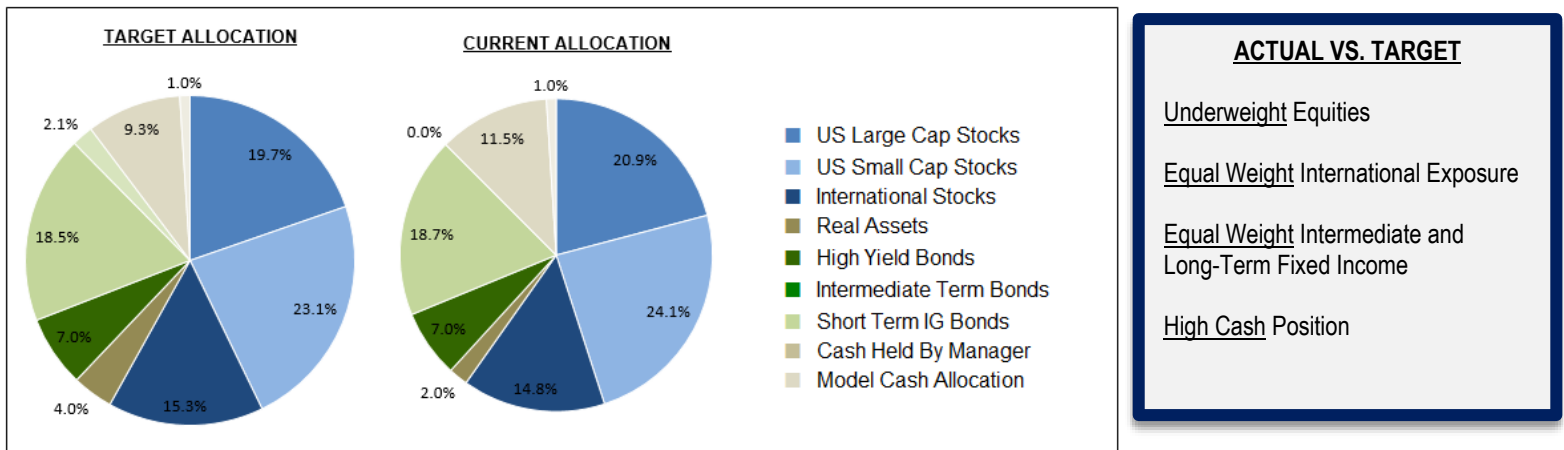


*General overall portfolio comments refer to the Moderate Growth allocations used in both the Pooled Fund Program and the Unified Managed Account Program. These general comments will be referred to as “Moderate Growth” throughout. Specific references to performance, current allocation, or comparison to indexes are derived from the CWA Model 5 Portfolio in the Pooled Fund Program; these specific comments will be referred to as “Model 5” throughout.

PORTFOLIO ANALYSIS

Overall Goal. We construct portfolios to generate a return that maximizes the probability that an investor will meet their retirement goals, as opposed to maximizing their asset base (which interjects significant risk). We believe that a value bias, international exposure and general diversification provide the best avenue to meet this objective. Our portfolios have lower volatility[†], but can go through periods where they do not keep pace with the U.S. equity markets (the most common benchmark) because of our focus on value, fixed income and international stocks.

The **Moderate Growth Portfolio** is intended to provide a balanced allocation, with a slight overweight to equities over fixed income. The goal is to provide a balance of growth and income with lower volatility than an all-equity portfolio. Our target and current portfolio asset class allocations for Model 5 are listed below.



LARGEST EQUITY AND FIXED INCOME POSITIONS

In normal market environments, Moderate Growth has a target allocation of 60% stocks & 40% bonds, with approximately 20% of the portfolio in international equities and fixed income. So, the portfolio is a global one – with a U.S. tilt. By design, the holdings are broadly diversified by location/country, by company size, by credit quality/yield and by maturity/duration. The investment managers have a degree of flexibility which allows them to respond to different market environments, and our equity managers are currently holding a large amount of cash (given current valuations).

[†] as of 12/31/2018, the 7-year volatility (standard deviation) of Model 5 is 5.9%, versus 10.6% for the S&P 500 Index.

PERFORMANCE

The Moderate Growth portfolios in the Pooled Fund Program and the Unified Managed Account Program have slightly different investments, costs and thus returns. Accordingly, we direct you to your account statement for your individual performance.

In December, Model 5 (net of fees and expenses) underperformed⁽¹⁾ compared to the Global 60/40 Index, underperformed compared to the S&P Moderate Growth Index, and market performed compared to the U.S. 60/40 Index which posted the following returns:

PERFORMANCE	DEC	COMMENTS
Global 60/40 Benchmark Index ⁽²⁾	-3.41%	December was a heavy downside month for equity, with domestic equities underperforming global equities. Most equity sectors, such as mid cap and small cap, were down double digits, versus down -9.0% for the S&P 500. Bonds rallied during the month, with global bonds modestly outperforming domestic bonds.
US 60/40 Benchmark Index ⁽³⁾	-4.68%	
S&P Moderate Growth Index ⁽⁴⁾	-2.91%	

- (1) "Market Perform" means within a range of +10 bps to -10 bps of the applicable index for the month (or +/- 8 bps per month for YTD performance); "Outperform" means more than +10 bps for the month (or more than +8 bps per month for YTD performance); "Underperform" means more than -10 bps for the month (or more than -8 bps per month for YTD performance). **Please note performance comparison comments are based upon Model 5 Pooled Fund Program data. There are inherent limitations in the use of model performance – please read the Model Disclosure found on page 6. Investors should consult their individual custodial statement for actual performance of individual portfolios. Actual performance comparisons may differ from model comparisons.**
- (2) Global 60/40 Benchmark is 60% MSCI ACWI Index & 40% Barclays Global Aggregate Bond Index.
- (3) US 60/40 Benchmark is 60% S&P 500 Index & 40% Barclays U.S. Aggregate Bond Index.
- (4) S&P Moderate Growth Index is 50% S&P Target Risk Moderate Index & 50% S&P Target Risk Growth Index.

MARKET PERFORMANCE

Equities

PERFORMANCE	DEC	MULTIPLE	COMMENTS
U.S. Equities ⁽⁵⁾	-9.31%	18.3X	Equity was broadly lower during the month, with a cascade of selling that moved sector to sector on an almost daily basis. Value was hit harder than growth during the month – however value began to hold up better in the latter stages of the month.
International Developed ⁽⁶⁾	-4.83%	13.5X	International stocks fared better than domestic stocks during the month. Europe is dealing with its own economic slowdown and Brexit concerns, however it remained relatively insulated during the worst parts of December for domestic equities.
Emerging Markets ⁽⁷⁾	-2.81%	11.6X	Emerging markets did very well on a relative basis, however December capped off a -14.5% year form EM equity.

- (5) U.S. Equities are represented by the Russell 3000 Index.
- (6) International Developed is the MSCI EAFE Index.
- (7) Emerging Markets is the MSCI EM Index.

Fixed Income

PERFORMANCE	DEC	SPREAD OVER UST 10 YEAR	COMMENTS
U.S. Treasuries (Medium Duration) ⁽⁸⁾	2.73%	-	Yields moved lower during the month as equity markets fell sharply.
U.S. Treasuries (Longer Duration) ⁽⁹⁾	5.59%	0.23%	The curve remains flat and the long end of the curve rallied sharply during the month.
Global Fixed Income ⁽¹⁰⁾	2.02%	-0.68%	Global bonds rallied, however they underperformed domestic bonds. Equity markets fell more in the U.S., and thus the heavy risk off nature of the month benefitted domestic bonds.
Emerging Fixed Income ⁽¹¹⁾	1.43%	3.39%	Spreads widened during due primarily to the yield compression in the U.S.
High Yield ⁽¹²⁾	-2.14%	5.29%	High yield spreads widened by over 1% during the month as the potential for an economic slowdown widened corporate credit spreads. Spreads remain tight from historical standards.

(8) U.S. Treasuries (7-10 Years), represented by the Barclays U.S.T 7-10 Yr Total Return Index

(9) U.S. Treasuries (20+ Years), represented by the Barclays U.S.T 20+ Yr Total Return Index

(10) Barclays Global Aggregate Bond Index.

(11) Barclays Emerging Markets EMEA Total Return

(12) Barclays U.S. Corporate High Yield Index.

Commodities and Real Assets. The Model 5 portfolios do not have significant exposure to commodities, except indirectly. However, commodities and real assets (real estate) provide a good sense of global demand (in the case of industrial commodities) or fear (gold).

PERFORMANCE	DEC	TREND	COMMENTS
Energy ⁽¹³⁾	-11.71%	DOWN	Energy is in a major downtrend, and lately it has felt like “so goes oil so goes the market.” This makes sense as a barometer for global economic health, although in the near term the equity side of the energy market appears oversold.
Real Estate ⁽¹⁴⁾	-7.69%	DOWN	Real Estate fell in tandem with the market and the potential for an economic downturn.
Industrial Metals ⁽¹⁵⁾	-4.17%	DOWN	Metals fell during the month, with concerns about China trade and the global economy predictably putting negative pressure on industrial materials.
Gold ⁽¹⁶⁾	4.94%	UP	Gold bounced due to a weaker dollar and benefitted from its stature as a safe haven asset during periods of global economic stress.

(13) S&P GSCI Energy Total Return Index.

(14) Dow Jones U.S. Real Estate Index.

(15) S&P GSCI Industrial Metals Total Return Index.

(16) SPDR Gold Shares (GLD).

Market Comments

December was an extremely volatile and poor month for equity returns. Following October and the brief reprieve in November, the market began the month by indiscriminately selling off stocks. Day to day there was a cascade as the selling jumped from sector to sector – one day was Financials leading the market lower, only to see Energy the next. Even traditionally defensive sectors were not immune. Utilities declined -4.0% in December, and Health Care declined -9.4%.

Asset Class Performance YTD 2018, Q4, and December - Total Return (%)

US Related					Global				
ETF	Description	December	Q4	YTD 2018	ETF	Description	December	Q4	YTD 2018
SPY	S&P 500	-8.79	-13.52	-4.56	EWA	Australia	-3.88	-9.62	-12.02
DIA	Dow 30	-8.48	-11.29	-3.74	EWZ	Brazil	-2.56	14.98	-2.57
QQQ	Nasdaq 100	-8.65	-16.73	-0.12	EWC	Canada	-8.55	-15.35	-17.16
IJH	S&P Midcap 400	-11.33	-17.28	-11.18	ASHR	China	-5.19	-12.40	-28.44
IJR	S&P Smallcap 600	-12.19	-20.18	-8.49	EWQ	France	-5.12	-15.13	-12.88
IWB	Russell 1000	-8.91	-13.74	-4.88	EWG	Germany	-5.55	-14.76	-21.37
IWM	Russell 2000	-11.97	-20.29	-11.11	EWH	Hong Kong	-1.05	-4.53	-8.73
IWV	Russell 3000	-9.14	-14.25	-5.41	PIN	India	0.82	1.91	-7.55
					EWI	Italy	-3.43	-11.35	-17.19
IVW	S&P 500 Growth	-8.46	-14.68	-0.19	EWJ	Japan	-7.69	-15.19	-14.09
IJK	Midcap 400 Growth	-11.29	-17.69	-10.52	EWJ	Mexico	3.06	-18.87	-14.59
IJT	Smallcap 600 Growth	-12.06	-19.77	-4.39	EWP	Spain	-4.10	-7.69	-15.32
IVE	S&P 500 Value	-9.38	-12.06	-9.19	RSX	Russia	-3.64	-8.60	-7.10
IJJ	Midcap 400 Value	-11.39	-16.89	-12.04	EWU	UK	-4.58	-12.10	-14.28
IJS	Smallcap 600 Value	-12.38	-20.64	-12.84					
DVY	DJ Dividend	-7.98	-9.74	-6.32	EFA	EAFE	-5.35	-12.62	-13.81
RSP	S&P 500 Equalweight	-9.54	-13.90	-7.82	EEM	Emerging Mkts	-3.50	-7.64	-15.31
FXB	British Pound	0.06	-2.19	-5.75	IOO	Global 100	-7.43	-12.26	-6.22
FXE	Euro	1.12	-1.51	-5.30	EGB	BRIC	-5.65	-6.48	-11.34
FXJ	Yen	3.43	3.52	2.31					
					DBC	Commodities	-3.99	-18.31	-11.62
XLY	Cons Disc	-7.95	-15.20	1.59	USO	Oil	-9.97	-37.76	-19.57
XLP	Cons Stap	-8.91	-4.97	-8.07	UNG	Nat. Gas	-33.79	-0.48	5.96
XLE	Energy	-12.43	-23.57	-18.21	GLD	Gold	4.94	7.53	-1.94
XLF	Financials	-11.12	-13.08	-13.04	SLV	Silver	9.01	5.75	-9.19
XLV	Health Care	-9.35	-8.66	6.28					
XLI	Industrials	-10.65	-17.33	-13.24	SHY	1-3 Yr Treasuries	0.76	1.30	1.46
XLB	Materials	-6.88	-12.22	-14.87	IEF	7-10 Yr Treasuries	2.80	3.86	0.99
XLK	Technology	-8.36	-17.35	-1.66	TLT	20+ Yr Treasuries	5.85	4.59	-1.61
XLC	Comm Services	-7.98	-15.47	--	AGG	Aggregate Bond	1.98	1.85	0.10
XLU	Utilities	-3.99	1.37	3.92	BND	Total Bond Market	1.87	1.64	-0.11
					TIP	T.I.P.S.	0.53	-0.52	-1.42

Source: www.bespokepremium.com

Value once again underperformed Growth for the year. The S&P 500 Value Index finished the year -9.0%, versus a flat year for the S&P 500 Growth Index. However, we feel it early for this to be an indictment of investing in value. To begin 2019, Value has begun to show its defensive characteristics, and historically, Value drops in tandem with Growth at the beginning of market downturns.

Lyrical Asset Management, one of the managers used in CWA Models provided the following insight that throws the benefits of investing in value into sharp relief. For the 2 years pre-internet bubble in 1998 and 1999, the cheapest 10% of stocks only gained 0.8%, versus the most expensive end of the market earning 48.4%. Over the next 6 years after the Internet Bubble, the same cheapest 10% of stocks earned a cumulative 277%, versus -41% for the expensive end that had previously outperformed. This intuitively makes sense and is important to keep in mind as a framework for what it means to be a value investor – it is a long-term mindset that sometimes demands patience.

As we assess the portfolios of many of the value managers we follow, we find that on a fundamental basis the value of their holdings is currently trading at cheaper valuations than it was during the post-Lehman depths of 2008. We find this curious as we are not in a financial crisis and we still have an economy that is growing even if growth is moderating. We believe this to be unsustainable over the long term – businesses do not trade at double digit Free Cash Flow multiples, in general, yet we can find many today.

As we enter the new year and the market begins to find some directionality, we would postulate that fundamentals for many of these businesses will win out. Even businesses like Apple, who saw a 10% decline in their stock on Jan. 3, 2019, following a downward revision to revenue guidance, look very attractive on a fundamental basis versus where they were a year ago. The realities of the economy and market valuation need only meet in the middle for the market to become a much more rational environment in the short term.

Further Reading

- 1) **US job growth surges while wages accelerate in December, Financial Times, January 4, 2019**

<https://www.ft.com/content/82097ea0-101e-11e9-a3aa-118c761d2745>

- 2) **2017 vs. 2018 in the stock market, A Wealth of Common Sense, January 3, 2019**

This article is a good review and outlines the sometime Jeckyll and Hyde nature of the stock market.

<https://awealthofcommonsense.com/2019/01/2017-vs-2018-in-the-stock-market/>

For questions, or to request additional information, please contact your CWA Financial Planner

DISCLOSURES

PAST PERFORMANCE IS NOT AN INDICATOR OF FUTURE MARKET RETURNS.

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CWA Model 5 Moderate Growth Pooled Fund Program: The target allocation and portfolio data used throughout this presentation is for the CWA Model 5 recommended for participants in the Pooled Fund Program. This Model is the most common recommendation and is used here to illustrate the CWA methodology. Other CWA Recommended Investment Program models will vary in asset allocation and underlying manager and/or security selection. Clients should discuss these models and programs with their planner prior to selection.

***The CAPE ratio is a valuation measure that uses real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle. The ratio is generally applied to broad equity indices to assess whether the market is undervalued or overvalued. While the CAPE ratio is a popular and widely-followed measure, several leading industry practitioners have called into question its utility as a predictor of future stock market returns. The CAPE ratio, an acronym for Cyclically Adjusted P/E (i.e. Price-Earnings) ratio, was popularized by Yale University professor Robert Shiller. It is also known as the Shiller P/E ratio.*

+Statements relating to Value outperforming Growth are based upon the data of the Fama-French 3-Factor Model. A pioneering study by renowned academics, Eugene Fama and Ken French, suggesting that three risk factors: market (beta), size (market capitalization) and price (book/market value) dimensions explain 96% of historical equity performance.

Model Performance Disclosure: Model performance is NOT an indicator of future or actual results. Performance does not represent the returns that any individual investor actually received. Cain Watters Investors may incur a loss. Cain Watters Models contain allocations to several different common pooled trust funds. Each individual pooled trust fund has a defined investment strategy; usually designed around a specific asset class. Investment managers and their respective strategies are chosen to meet each of the pooled funds' objectives. Investors in the models pay a monthly asset based trust fee, based on their average investment balance during the month. Model performance is calculated using the reported net asset value of each individual pooled fund. Performance for the individual funds is then weighted according to the model target allocation. Model performance includes the reinvestment of dividends and interest. The annual trust fee of 0.65% is subtracted from gross returns on a pro-rated basis of 0.0541% per month; and includes trust fees and investment advisory fees. For time periods prior to July 1, 2016 an annual trust fee of 1.05% or 0.0875% per month was used. Model performance has inherent limitations in that it does not reflect the effects of significant cash flows, or take into account actual client asset allocation that may differ materially from the target allocation due to rebalancing policies and changes in market values. This model performance information is provided for illustrative purposes only. Cain Watters Model investors may experience materially different returns.

Use of Comparison Benchmark or Index: Indexes cannot be invested in directly. Index performance and statistics are provided for illustrative or comparison purposes and are chosen as commonly accepted representations of the performance of a particular segment of the market.