



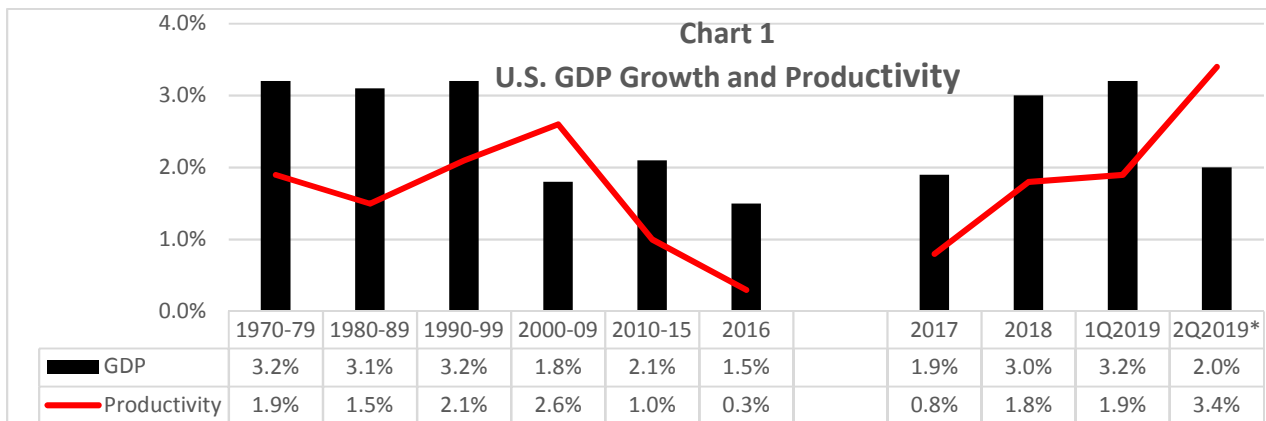
Market in Confirmed Uptrend

“The most likely outcome continues to be the that the economy will maintain its good performance in 2019 - a sustainable growth scenario in which output slows, labor markets remain strong, and after some near-term softness, inflation moves back to our 2% goal...”¹

Richard C. Hoyt
July 11, 2019

What?

- The GDP for the U.S. Economy was .9% in 2017, 3.0% in 2018, and 3.2% in 1Q2019 (Chart1).
- The Council of Economic Advisors projected in March that the average GDP for 2019 will exceed 3%, but the 2Q2019 GDP is estimated to be in the 2% range due to a slowdown in inventories (Chart 1).
- Productivity continues to improve from .8% in 2017, to 3.0% in 2018, and 3.4% in June 2019 (Chart 1).
- The S&P500 rose 17.3% for first six months of 2019, the best first half performance since 1997 when the index increased 19.5%.²

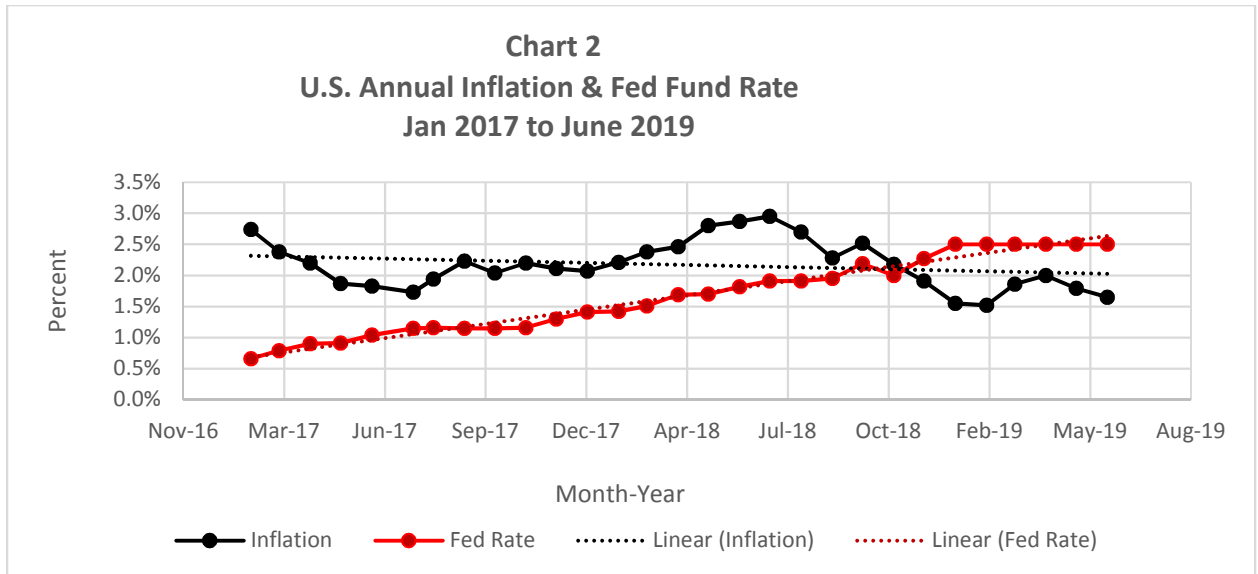


*2Q2019 GDP is estimated

- Nonfarm payrolls rose by 224,000 in June, while the jobless rate increased from a 50 year low to 3.7%, and wages advanced 3.1% from a year earlier.
- The Federal Reserve held their short term benchmark rate at 2.5%, whereas the U.S. annual inflation varied between 1.5% in March to 2.0% in April, to 1.7% in June (Chart 2).

¹ Mester, Loretta, President, Cleveland Federal Reserve <https://www.wsj.com/articles>, July 2, 2019-11562079699

² It can be convincingly argued, however, that there would not have been a -16.70% SPX return in 2018 but for the Federal Reserve announcement of three additional interest rate increases in 2019, after four moves higher in 2018. Chart 2 gives credence to this hypothesis and implies that the S&P 500 Price Index (SPX) would have approximated current levels in January 2019.



- Household spending and incomes recorded solid gains in May, consumer confidence remains strong, the labor participation rate in June improved to 62.9%, suggesting that there is still capacity to entice employees into the workforce, a key to future employment and economic growth.

Why?

- Interest rates are low, not for lack of demand, but rather because the U.S economy is experiencing a supply side recovery due to substantial increases in productivity, which is non-inflationary.³
- Business investing continues with the Federal Reserve funds rate at 2.5%, giving continued impetus to improving productivity, new hires, and GDP.⁴
- In addition to the above phenomenon, the likelihood of a near term recession is minimal given: 1) plenty of excess reserves;⁵ 2) no recession has ever been caused by overseas weakness; 3) full employment with 1.6 million more job openings than total unemployed; 4) nominal GDP at nearly two time the federal funds rate; and 5) retail sales are up 10.9% annually the past three months.
- Business cycle don't end because of longevity, but rather an economic disruption of some sort, which present conditions seem to obviate.

How?

- Stay fully invested in efficient⁶ Exchanged Traded Fund portfolios with high relative strength for diversification and growth potential.
- Make sure that the marginal risk and return of each strategic allocation are in balance.⁷

³ The economic rationale for supply creating its own demand (Say's Law) is: increased output by the same number of workers causes an upward shift in the aggregate production function, expanding aggregate supply relative to demand, and causing prices to decrease.

⁴ GDP is generally thought of as the sum of new hires + productivity.

⁵ There is currently \$1.4 trillion in excess reserves, and 4.8% nominal GDP which is two times greater than the federal funds rate,

⁶ Sharpe Ratio is a common measure of portfolio efficiency (See Portfolio Summary).

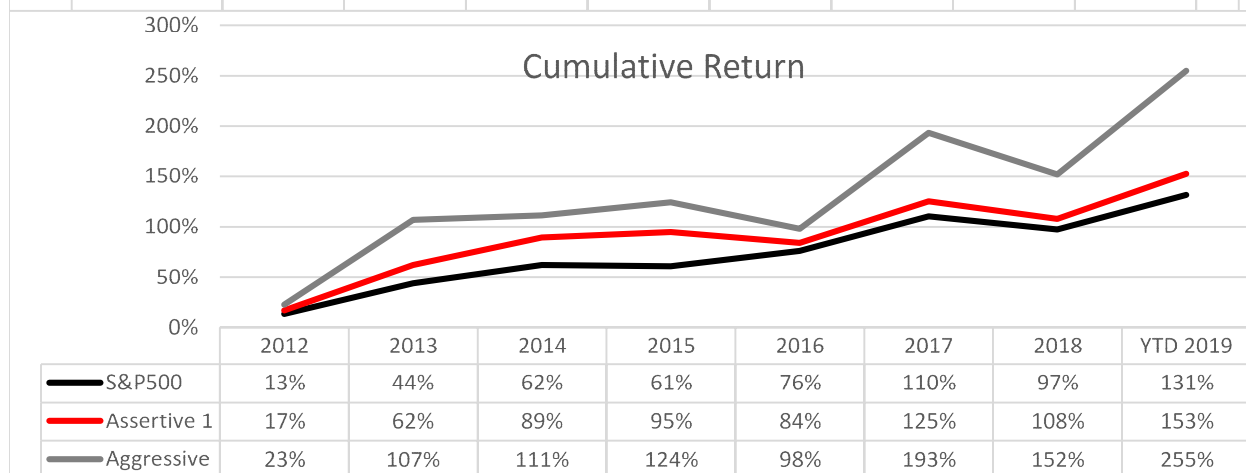
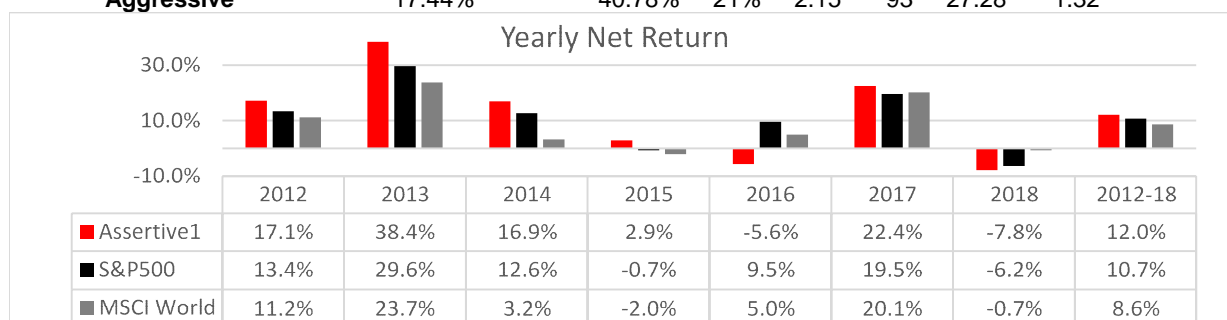
⁷ Beta: Systematic Risk (volatility) of a portfolio compared to the overall market (See Portfolio Summary).



ANALYTICS INVESTMENT ADVISORS, LLC

Performance Summary¹

| | 2012-18 Avg. | YTD ² 06/30/2019 | AUM | Beta | R ² | SD | Sharpe Ratio |
|--------------------|--------------|--------------------------------|-----|------|----------------|-------|--------------|
| S&P500 (\$SPX) | 10.70% | 17.34% | | | | | |
| Barclay US TR | 1.78% | 4.80% | | | | | |
| Cautious | 9.88% | n.a. | 0% | | | | |
| Moderate | 10.32% | 19.38% | 13% | 1.03 | 90 | 13.18 | 1.29 |
| Assertive 1 | 12.04% | 21.76% | 46% | 1.24 | 96 | 15.39 | 1.19 |
| Assertive 2 | 15.88% | 26.40% | 20% | 1.51 | 92 | 19.15 | 1.35 |
| Aggressive | 17.44% | 40.78% | 21% | 2.15 | 93 | 27.28 | 1.32 |



¹ **Cautious:** Investors seeking better than nominal returns, but with low risk and emphasis on wealth preservation. **Moderate:** Prudent investors desiring portfolios designed to accomplish medium long term. Calculated risk is acceptable to achieve good returns. **Assertive 1 & 2:** Investors with sufficient income to invest mostly in capital growth. Higher volatility and more aggressive investments are acceptable to accumulate wealth in the long run. **Aggressive:** Investors intending to compromise portfolio balance in pursuit of y higher long-term returns. Security of capital is secondary to potential wealth accumulation.

² Net Average Return, Portfolio Center, Schwab Portfolio Technologies. Fees are negotiable and range between 50 and 125 basis points. Risk Statistics, Morningstar Advisor Workstation; most recent 3 years, computed quarterly.

Beta Expected change in portfolio return per 1% change in market index return.
 R² Percent of variation in regression equation explained by the independent variable (S&P500).
 SD Standard deviation of the dependent variable (Net Return).
 Sharpe Reward-to-Variability Ratio; i.e., portfolio return above risk free rate of return divided by standard deviation (RVAR).