SAM NEWS

4th Quarter 2018 Report
January 2019

A Quarter to Forget

Stocks Suffer First Annual Losses Since the Financial Crisis

2018 turned out to be a tough year across the investing universe. The S&P 500 had two separate ten percent plus corrections and ended the year near bear market territory. Despite a favorable U.S. economic backdrop, the majority of global stock indices had losses for the year in dollar terms. According to Deutsche Bank, over 90% of <u>*all asset classes*</u> *experienced a negative return in 2018, setting a record going back to 1901. U.S. corporate profits rose approximately 20% in 2018 and U.S. GDP most recently measured 3.5%, so there has clearly been a disconnect between corporate earnings, the economy and stock prices…. Our economic activity is likely peaking and slowing to a still healthy 2.5-2.7% GDP growth rate, not contracting. With fears of an economic slowdown entering investor's mindsets, what will happen in 2019 and beyond?*

2018 INVESTMENT REPORT

Bad news piled on throughout the 4th quarter and investor sentiment turned dramatically negative. Stocks suffered major losses in the 4th quarter and it turned out to be the worst December for stocks since 1931. As measured by the Standard & Poor's 500 Index, U.S. stocks declined 4.4% in 2018. The Dow Jones Industrial Average lost 3.5%, while the small-cap Russell 2000 shed 11%. International stocks as measured by the MSCI EAFE Index underperformed U.S. stocks by declining 16.1%. Even gold prices declined 2.1%. The price of crude oil plummeted 20% due to fears of an economic slowdown and an ever-increasing supply. Bonds, as measured by the Barclays Aggregate Bond Index finished exactly flat as the Federal Reserve continued to raise interest rates.

INVESTMENT INDICES

All numbers listed are total returns and are percentage gains or losses.

	2018	4th Quarter	2017
Dow 30	-3.5%	-11.3%	28.1%
S&P 500	-4.4%	-13.5%	21.8%
Nasdaq Composite	-3.9%	-17.4%	28.2%
Russell 2000	-11.0%	-20.2%	14.6%
EAFE (Int'l stocks)	-16.1%	-12.9%	21.8%
Barclays Capital Aggregate (Bonds)	0.0%	1.6%	3.5%

These are not the rates of return for SAM accounts, but are shown as a historical benchmark for various asset classes. SAM does not guarantee account performance. Accounts may lose value. Information taken from sources believed to be reliable, but its accuracy cannot be guaranteed.

REQUIRED DISCLOSURES

Sierra Asset Management's ***Privacy Notice*** and ***Proxy Voting Policy Summary*** are enclosed with this bulletin. If you have any questions, please contact us. During the 1st quarter of 2019, we will update our ***U.S. Securities & Exchange Commission Form ADV Part 2***. You may request a copy by calling or sending an email. Our most recent SEC filings are always available at www.sec.gov.

1st Quarter Holidays

New Year's Day, January 1
Martin Luther King Jr. Day, Jan 21
President's Day, Feb 18
Good Friday, April 19

SAM Outlook and Strategy on the following pages.

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SAM OUTLOOK

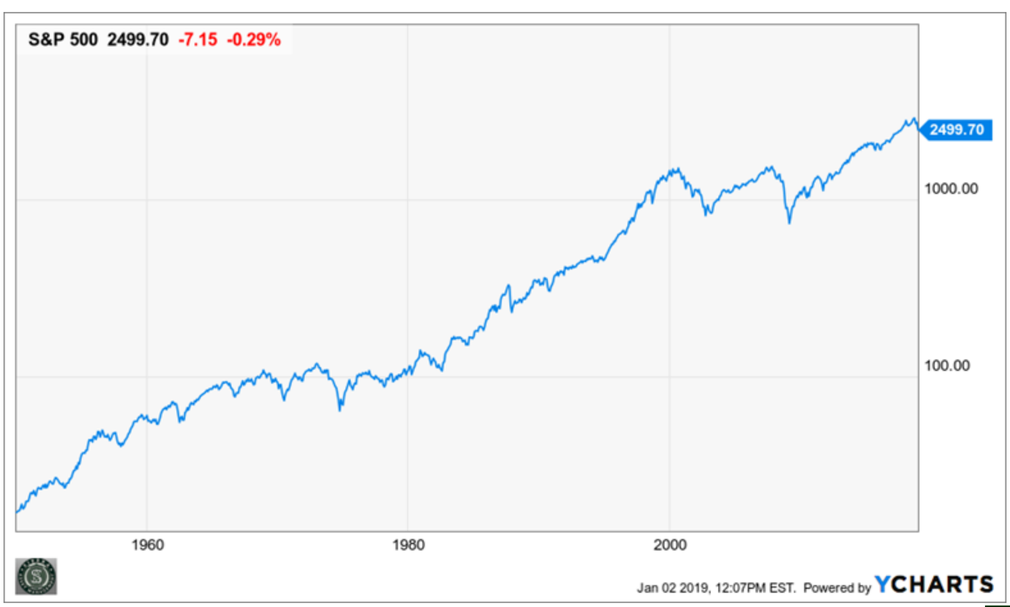
It is hard to believe, but we are entering the 10th year of the global economic expansion. Despite the recent selloff in the stock market, we expect that the U.S. economy will continue to grow. We believe that the U.S. economy is in the later stages of a very long expansion but is not yet tipping into recession. Current fundamentals such as consumer demand, consumer confidence, household balance sheets, price inflation, and the present stance of monetary policy suggest that the U.S. recovery could persist at least through 2020. The typical stresses that develop during long periods of economic growth—accelerating inflation, rapid increases in labor costs, credit bubbles or other widespread market dislocations are not apparent at the current time. While an economic slowdown may be occurring, the soonest that we forecast a recession is sometime in 2020.

With the recent decline, large S&P 500 stocks are now trading at a very reasonable price to earnings (P/E) ratio of less than 15 based on next year's expected earnings. The P/E ratio peaked at over 18 on September 20th when stocks were trading at their all-time highs. At these lower levels, coupled with continued economic growth, stocks are clearly undervalued in our opinion. The goal of our year-end rebalance was to take advantage of the recent price declines and move into areas that we think will out-perform in the coming months and years.

There are always clouds on the horizon and the mainstream media makes all of us hyper-aware of these on a daily basis. These currently include the trade war with China, Italian budget issues, Brexit complications, gridlock in Washington, policy errors, the partial government shutdown, ongoing investigations, the path of future interest rates, the Federal deficit, etc. We are keeping a close eye on each of these issues, but the current positive fundamental economic data still outweigh the negative. The vast majority of U.S. leading economic indicators are still solid- unemployment at 50-year lows, reasonable levels of consumer debt, low inflation, record-setting retail sales, positive business and consumer sentiment, etc. The most dangerous words when investing are "it's different this time." We know from history that the stock market has always recovered, and a 20% correction after nine consecutive positive years should not be cause for panic.

SAM STRATEGY

Let's take a step back and look at the current correction. We are down approximately 15% from the recent all-time highs. Take a look at the following long-term chart of the S&P 500. Outside of the 2000-2002 Dot Com crash and the 2008-2009 financial crisis, it is impossible to pick out the "black" days like Black Monday, which occurred on October 19, 1987. The stock market always moves up over time and this time will be no exception.



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SAM STRATEGY—continued

We made some minor allocation changes in late December across all our investment strategies to take advantage of the recent declines in stock prices. We believe that the recent volatility and subsequent stock price declines present a unique buying opportunity- stocks are on sale. Much of the recent volatility has been caused by the ongoing trade war with China and the uncertainty about future Federal Reserve interest rate policy. If either of these two major issues come to a meaningful resolution, we could see a large snap back in stock prices in a short period of time. We may have already seen the beginning of the turnaround with a record single day point rise for the Dow Jones Industrial Average (1,086 points) on 12/26 and continued gains into the end of the year.

Although they negatively affected our 2018 account performance, we continue to see great long-term value in developed and emerging market international stocks. Both developed international and emerging market stocks are cheaper than U.S. stocks on a price to earnings (P/E) basis and now also carry a higher dividend yield. As time goes on, more of the world's economic growth will come from outside the United States. In addition, international stocks as a whole have underperformed for the last 10 years. International stocks will eventually take the lead and we want to maintain a meaningful allocation in our portfolios.

Asset allocation and diversification are the tools that we use to manage portfolio risk. All accounts are highly diversified among many different asset classes (U.S. stocks, international stocks, bonds, commodities, real estate, cash, etc.). Our job as your investment advisor is to keep your accounts diversified at all times and to encourage you to stay the course when we have volatile times like these. After a very calm, positive market in 2017, the recent volatility has had a larger than normal psychological impact on our client base and investors at large. We appreciate your continued trust and confidence.

There will be down days, down weeks, down months and even down years. But the market ultimately moves in one direction: up. Remember this when everyone else doesn't.

What Should You Do Now?

- Remain calm and think long-term.
- Consider funding retirement accounts (IRAs, etc.) in early 2019. IRA contribution limits have been raised for 2019 to $6,000 and those age 50 or over can contribute an additional $1,000 "catch up" amount for a total of $7,000. 401(k) limits have also been raised to $19,000 with a $6,000 over age 50 "catch up" provision.
- Consider adding new money to non-retirement accounts (individual, trust, community property, etc.).
- Any new funds added to any type of Schwab investment account will be taking advantage of dollar cost averaging- essentially buying additional shares at lower prices. Additional investments made during times like these have historically experienced higher than average rates of return.

IMPORTANT TAX INFORMATION…

Schedule for Receiving Tax Preparation Forms

CHARLES SCHWAB 2018 FORM 1099 COMPOSITE AND YEAR-END SUMMARY for taxable brokerage accounts: Mid to Late February.

***CHARLES SCHWAB 2018 FORM* 1099-R** for distributions from IRA, SEP-IRA, Simple IRA, and Roth IRA accounts: mid to late January**.**

***CHARLES SCHWAB 2018 FORM* 5498** which reports your IRA contributions made by April 15, 2019: Mid to late May.

If any security sends updated information, Schwab will send a corrected Form 1099. While you may schedule your tax appointment earlier, please be sure to ask your CPA or tax preparer not to finalize your return preparation until March. Those clients who have limited partnership interests will typically not receive the partnership tax information until mid-March (as normal). While we may hold limited partnerships transferred in by clients, SAM does not invest in them.

SAM can still produce an estimate of gains/losses for tax planning purposes. ***SAM* cost basis estimates should be used for planning purposes only, and should <u>not</u> be used for tax return preparation. It will be very important to use the cost basis data reported by Schwab on the 1099 composite and year-end summary.** Your tax preparer or CPA will assist you with this important tax preparation issue. If you have any questions regarding cost basis, please give us a call at 658-5193 or toll-free 877-658-5193.

Cryptocurrencies Revisited

A picture is worth a thousand words. Since Bitcoin peaked in December, 2017 the value has declined 77%. Many other cryptocurrencies have fared similarly.

Interesting Facts & Figures

The third year of a presidential cycle has been positive for the Dow Jones Industrial Average in all but one instance in the past 80 years. The only negative year was in 1939 at the outset of World War II when it dropped 2.9%.

Even if you had bought U.S. stocks at the market top in 2007, right before stocks were cut in half and had held on until today, you'd still have a total return (appreciation and dividends) of around 100%. In other words, you would have doubled your money.

Twice as many American homeowners were created in the last year as had been created in the last 10 years. The number of U.S. homeowners grew by 1.8 million (to 77.9 million) over the 12 months ending 6/30/18, double the 900,000 new homeowners that were added over the decade ending 6/30/17.

The total cost of the Social Security program in 2018 (1.003 trillion) is projected to exceed its total income ($1.001 trillion), resulting in the program's first deficit since 1982

We sincerely appreciate the many wonderful referrals that we received throughout 2018. If you know of someone who would benefit from our service, please consider sharing our contact information with them. As always, there is no cost for an initial consultation.

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If not: You have three options to obtain a Login ID and password.

- Call our office at 877-658-5193 and we can assist you with the process.
- Register online at www.schwab.com/sa_webactivate
- Call Schwab Signature Alliance® at 800-515-2157.

Once you obtain your Login ID and password, go to www.schwab.com/sa_gopaperless to complete enrollment.

Skype Review Option

We realize that many of our clients are busy and may not always have time for an in-person review appointment. We have the ability to video conference at any time through Skype. This allows us to visit with you face to face- even on short notice. If you would like to schedule a Skype review call, please contact our office to schedule an appointment.