SAM NEWS

4th Quarter 2019 Report
January 2020

Sierra Asset Management Turns 20

Longest Bull Market Run Continues as Major Indices Notch All-Time Highs

Sierra Asset Management was founded in 1999 by Alan Graas. In the early days of SAM, Alan was in semi-retirement and planned on keeping only a few hand-selected clients after he sold his former company, Regency Investment Advisors. Don came along in the year 2000 and started out as a Fresno State intern and analyst. Once Don completed his finance degree in 2001, he joined SAM full time and he and Alan began jointly growing the company.

Kimberly has been with our company since 2008 and as many of you know, she is our administrative backbone. Mike joined SAM eight years ago and has added to our client service capacity and financial planning expertise as our second Certified Financial Planner®. SAM has certainly advanced in the areas of technology and research, but the fundamental principles of diversified portfolio management, sound financial planning, and superb client service have not changed. We sincerely thank each of our clients for your continued trust and confidence and for making our progress possible.

What do we see in store for 2020 and beyond? Please read our SAM Outlook and SAM Strategy sections that follow.

2019 INVESTMENT REPORT

2019 turned out to be another stellar year for the broad stock market as U.S. stock indices set all-time highs. We have certainly experienced a range of returns over the past few years. 2016 was an average year, 2017 was a great year, 2018 was a bad year, and 2019 was a stellar year. Investors have been rewarded for remaining diversified and staying the course. Despite the seemingly endless negative nightly media headlines and global issues to worry about, the longest U.S. economic expansion in history has continued, and stocks closed out the year at record highs. As the old Wall Street saying goes, bull markets climb a wall of worry and today this certainly applies.

As measured by the Standard & Poor's 500 Index, U.S. stocks gained 31.5% for 2019. The Dow Jones Industrial Average gained 25.3%, while the small-cap Russell 2000 rallied 25.5%. International stocks as measured by the MSCI EAFE Index underperformed U.S. stocks, but still managed to gain 18.4%. Gold prices ended up 15.64%. Bonds, as measured by the Barclays Aggregate Bond Index had a total return of 8.7% as the Federal Reserve lowered interest rates and now appears to have rates on hold.

INVESTMENT INDICES

All numbers listed are total returns (including dividends) and are percentage gains or losses. The 10-year numbers are annualized.

	2019	2018	10-Year
Dow 30	25.3%	-3.5%	13.4%
S&P 500	31.5%	-4.4%	13.6%
Nasdaq Composite	35.2%	-3.9%	14.7%
Russell 2000	25.5%	-11.0%	11.8%
EAFE (Int'l stocks)	18.4%	-16.1%	2.6%
Barclays Capital Aggregate (Bonds)	8.7%	0.0%	3.7%

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.

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SAM Outlook and Strategy on the following pages.

SAM OUTLOOK

There's quite a bit of negativity in the news these days. Whether it's concern over a global manufacturing recession, an endless trade war, geopolitical conflict in the Middle East, or impeachment, investors have plenty of reasons to lose confidence in the economic expansion and bull market. However, with so much negativity swirling around the newswires, many of the crucial, positive drivers of economic growth are not being reported. We continue to monitor the incoming economic data and admittedly it is more mixed or negative than it was 12-18 months ago.

Markets got rattled early in the quarter when the Institute for Supply Management released manufacturing data for September. The numbers showed manufacturing contracting on all levels- employment, factory activity, exports, and new orders. In short, the U.S. manufacturing sector is in recession. While that sounds like a big deal, we note that manufacturing only accounts for 10% of U.S. GDP. If the rest of the economy is expanding, weak manufacturing numbers may not actually spell doom-and-gloom. Based on analysis from the New York Federal Reserve, the probability of a U.S. recession in the next 12 months has declined to less than 25%.

Services are what make up the vast majority of the U.S. economy- accounting for around 70% of total output and consumers are included in that figure. The Institute for Supply Management's Non-Manufacturing Index (Services) for November showed the U.S. services sector firmly in expansion mode. Any reading over 50% signals expansion, and we saw the Business Activity Index at 51.6%, the New Orders Index at 57.1%, and the Employment Index at 55.5%. As Blackrock recently put it, "for the umpteenth time this recovery, the U.S. household sector appears to be keeping the global economy out of the abyss. The good news: this is likely to continue." At this point, we see continued U.S. economic growth, albeit at a slower pace. Our giant economy continues to grow at around 2% annualized and is mathematically a measurable distance from a technical recession (two consecutive quarters of negative growth). Factoring in the recent Federal Reserve rate cuts and the newly signed United States-Mexico-Canada Agreement and economic growth could accelerate in 2020.

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 2020, 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 20
President's Day, Feb 17
Good Friday, April 10

SAM STRATEGY

At the risk of sounding like a broken record, we are staying the course until the fundamental economic data meaningfully changes. At least on a monthly basis, we are taking a very close look at the extensive list of U.S. leading economic indicators which includes everything from manufacturing orders to interest rates to new housing starts. There are still no alarm bells going off within the data, but we do have a coordinated investment plan ready should the data warrant becoming more conservative in our investment approach. If a recession does occur in the next twelve to twenty-four months, we think it will be a very mild recession- nothing like the Great Recession of 2008-2009 that was caused by the financial crisis.

Part of our strategy of remaining fully invested and near the maximum stock allocation within each model has to do with the unresolved trade war with China. On December 13th, the U.S. and China reached a "phase one" agreement and no new tariffs are scheduled to go into place as long as the negotiations continue as planned. We believe that any sustained and meaningful trade resolution with China on trade could have an immediate positive impact on the stock market. A full trade deal could also help jumpstart global economic growth and improve business and consumer confidence in the world's two largest economies. With the presidential election less than a year away, we are confident that President Trump would prefer to have a full China trade deal in place well before next November.

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Schwab Announces Zero Commissions on Trades

Schwab has always been an industry leader and we continue to custody our client accounts at Charles Schwab Institutional- the wholesale side of Schwab. In October, Schwab took another industry leading step and reduced stock and ETF commissions to zero. All other major brokerage firms quickly followed suit. Although our clients were generally paying only $4.95 for exchange traded fund (ETF) and individual stock trades, this further reduces the drag of investment costs and will contribute to improved bottom line rates of return. This change also allows us to reduce our minimum account size when considering whether to utilize strictly no-load, no-fee mutual funds or purchase exchange traded funds (ETFs) and individual stocks. Some accounts may experience more trading early this year as we are converting accounts from the mutual fund model to the ETF and individual stock model.

Non-Schwab Investment Accounts

As part of our service to clients, we are glad to periodically review your investment accounts that are not held at Schwab. Most often, these are retirement plans associated with your current employer that we are unable to manage directly until you change employers or retire. If you will provide us with a current statement and a list of your available investment choices for your current retirement plan at work, we will provide a recommended investment allocation that will generally align with our directly managed Schwab accounts. If you have other investment accounts that are not connected to your current employer's plan, you may consider consolidating those accounts at Schwab under our management.

Interesting Facts & Figures

THEY'LL BE RUNNING THE SHOW- By the year 2025, **more than 50% of the US workforce** will be "millennials" or younger. Millennials were born between 1981-97 and will be **ages 28-44 in 2025** (source: Inc. Magazine).

WHERE DO YOU RANK?- It takes **adjusted gross income** (AGI) of $2.37 million to rank in the **top one-tenth of 1% of US taxpayers**. It takes AGI of $515,371 to rank in the **top 1% of taxpayers**. It takes AGI of $208,053 to rank in the **top 5% of taxpayers**. It takes AGI of $145,135 to rank in the **top 10% of taxpayers**. This data, covering tax year 2017, was released recently (source: Internal Revenue Service).

We sincerely appreciate the many wonderful referrals that we received throughout the year from our existing clients. We are also appreciative of our new Dave Ramsey SmartVestor clients. 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.

IMPORTANT TAX INFORMATION…

Schedule for Receiving Tax Preparation Forms

CHARLES SCHWAB 2019 FORM 1099 COMPOSITE AND YEAR-END SUMMARY for taxable brokerage accounts: Mid to Late February.

***CHARLES SCHWAB 2019 FORM* 1099-R** for distributions from IRA, SEP-IRA, Simple IRA, and Roth IRA accounts: mid to late January**.**

***CHARLES SCHWAB 2019 FORM* 5498** which reports your IRA contributions made by April 15, 2020: 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.