Third Quarter 2019

GALECKI FINANCIAL MANAGEMENT — FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	7.05%	4.30%	18.54%
Russell Midcap Index	6.87%	4.13%	21.35%
Russell 2000 Index	7.07%	2.10%	16.98%
Dow Jones Industrial Average	7.31%	3.21%	15.40%
Morgan Stanley EAFE Index	5.93%	3.68%	14.03%
DJ US Real Estate Index	1.86%	1.82%	19.21%
S&P Commodity Index	4.43%	-1.42%	13.34%
Barclays Aggregate Bond Index	1.26%	3.08%	6.11%

INDEX RETURNS

The first six months of 2019 saw almost every asset class move higher. Weaker economic data has given investors confidence that the Federal Reserve will cut rates and save the day for risk assets. We will see how this plays out for the remainder of the year. Meanwhile, U.S. Large Cap stocks were up 7.05% in June and are now up more than 18% on the year. U.S. Mid Cap stocks are up more than 21% in 2019. Small cap stocks, as measured by the Russell 2000, rose 7.07% in June and are now up nearly 17% on the year.

International stocks have recovered nicely so far in 2019. The MSCI EAFE Index was up 5.93% in June and is now up 14% year to date. The MSCI Emerging Markets Index had a quiet second quarter as a whole, but it was up 6.24% in June and is now up 10.58% on the year.

The Barclays Aggregate Bond Index rose 1.26% in June and is now up 6.11% on the year. Emerging Market Bonds were up 4.23% in the second quarter and are now up 11.97% year to date. High Yield Bonds have also had a good run and are now up 11.96% in 2019.

ECONOMIC REVIEW AND OUTLOOK

The U.S. economy grew at a 3.1% annualized rate in the first quarter following the 2.2% rate in the 4th quarter of 2018. Early estimates for the second quarter of 2019 are in the 1.5-2.5% range. Expectations are for the economy to continue to slow down in 2019. We think the risk of a recession in late 2019 or early 2020 is relatively high. There are a number of economic indicators that have our serious attention.

The Leading Economic Index was unchanged in May at 111.8 following a 0.1 percent increase in April and a 0.2% increase in March. Industrial Production was unchanged in June after advancing 0.4% in May. The

Capacity Utilization rate (which measures how much slack is in the economy) was at 77.9 percent in June which was down 0.2% from May and is now 1.9 percentage points below its long term average.

Non-farm payrolls increased by 224,000 in June. The unemployment rate remained at 3.7% which is slightly above a 49 year low. The number of unemployed Americans was unchanged at 6.0 million. In June, the labor force participation rate was at 62.9%. Initial weekly unemployment claims were 209,000 for the week ending July 6. According to the JOLTS survey, there were 7.3 million new job openings at the end of May, which is near an all-time high. This means there are more jobs available then there are unemployed Americans.

Manufacturing decreased in June to 51.7% from 52.1% in May on the ISM PMI index. This marks the 122nd consecutive month of expansion (any reading above 50 represents expansion). The ISM Non-Manufacturing index was at 55.1% in June which marks the 113th consecutive month of expansion. The Business Activity Index was at 58.2% and the New Orders Index fell to 55.8%. This data points towards slower economic growth.

Global economies have started to cool. The JP Morgan Global PMI was at 49.4 in June. Any reading below 50 represents contraction in the manufacturing sector. The Euro Area is at 47.6 led by France and Greece who have small economies. Emerging economies had a June reading of 49.9 led by India at 52.1 and Brazil at 51.0. Global economic activity is slowing. The trade disputes have impacted global revenues for companies and business confidence is waning. Look for continued weakness in the second half of 2019.

EQUITY AND BOND MARKETS

The second quarter of 2019 saw continued expansion in almost all asset classes. The S&P 500 is now up almost 19% on the year. That is nearly a 40% annualized growth rate over the 6 month time period. It is unlikely that we will continue to see this type of equity performance in the second half of this year. In fact, it is probable that 2019 portfolio returns have already been captured. You can see in the chart below how the S&P 500 has performed following a yield curve inversion. We had an inversion of the 10 year bond and 3 month Treasury in March of this year. When this has occurred in the past, the S&P 500 is down nearly 2% on average 6 months later, and it is down 10% on average 18 months later.

S&P 500 Performance After First Yield Curve Inversion
(10yr T-Bond Yield minus 3mo T-Bill)

Yield Curve Inversion Date	S&P 500 Gain/Loss 6mos	12mos	18mos	Lead Time to Bear Mkt Bottom	Maximum Drawdown
01/14/1966	-7.1%	-9.6%	-0.8%	9mos	-22.2%
01/03/1969	-4.2	-10.6	-29.9	17	-36.1
06/08/1973	-9.8	-13.5	-39.3	16	-48.2
12/01/1978	3.0	10.3	15.5	–	-19.4
10/31/1980	4.2	-4.4	-8.7	21	-27.1
07/28/1989	-4.8	3.3	-1.8	14	-19.9
08/04/2000	-7.8	-17.0	-25.2	26	-49.1
08/04/2006	13.2	12.0	7.9	31	-56.8
03/22/2019	?	?	?	?	?
Average:	**-1.7%**	**-3.7%**	**-10.3%**	**19mos**	**-34.9%**

The Global Purchasing Managers Index has fallen for 13 months in a row. This is a clear sign that the global economy is weakening. The last time we had such a prolonged drop in the Global PMI was in 2008 just before the recession, and in 2001 before a recession. Central Banks around the globe will be working to create soft landings for economies, but the task will be difficult.

Consumer Confidence has also been a great barometer for predicting recessions. Once this indicator peaks and begins to fall, a recession typically follows. It is becoming clear in the data that global consumer confidence has peaked and may continue to trend downward. When this occurs, consumers tend to spend less, which causes reduced company revenues, lower earnings and subsequent layoffs. Equity markets will react ahead of this as earnings will begin to suffer.

International equity markets have also done well in the first half of this year. International Developed stocks are up 14% in the first six months of the year. International Emerging stocks are up more than 10% over the same time period. Valuations for international equites continue to be more attractive than U.S. equities. The S&P 500 is trading at 17 times earnings which is more than the 25 year average of 16.2 times earnings. International Developed stocks and Emerging stocks are trading below their long term averages.

If the Federal Reserve does cut rates later this year, then look for U.S. bonds to continue to perform well. Global bond yields in many countries are less than 1% and in some cases (Germany) they are negative. This means that our 10 year U.S. Treasury yield of 2.1% is quite attractive to many investors around the globe. This should continue to put downward pressure on U.S. yields.

International bonds remain attractive at these levels. The JPM Global Core Bond Index is up 11.97% on the year. It is likely that the U.S. Dollar will slowly decline over the next 18 months. This will help the return of foreign bonds.

PORTFOLIO MANAGEMENT

The Investment Committee has spent the last few months reducing risk in our portfolios. We still believe in long-term asset allocation and are fully invested. However, we have removed some of the more aggressive investments from the portfolio. Given where we are at in this bull market cycle and economic cycle, it is prudent to take a more defensive stance. We have removed one of our aggressive U.S. Large Cap funds with a position in an ETF that offers upside opportunity with a significant downside buffer. The downside buffer allows us to keep exposure to U.S. Large cap stocks, while removing a large portion of the downside risk.

We have removed our convertible bond holdings from the portfolio. These funds have done great over the last few years, but they have a high correlation to equities. We have also increased the duration in our bond portfolio to take advantage of the shift in monetary policy and give us more diversification if equities begin to fall.

With a difficult earnings season approaching, and a possible recession in the near future, we have taken steps to minimize the downside capture ratio of the portfolio. We do not consider our philosophy to be market timing. We simply want to appropriately manage the risk in the portfolio given where we are in this cycle.

FINANCIAL PLANNING

We are now half-way through 2019. Now is a great time to complete a personal financial check-in to ensure you are on pace to hit your financial goals for the year. Here are a few questions to ask:

1. Are you on track to maximize your retirement contributions?
2. Did you owe a substantial amount upon filing your 2018 Tax Return? You may want to double-check your tax withholdings to ensure you are on pace to pay enough in taxes during the 2019 calendar year to avoid any underpayment penalties.
3. Is your health insurance a high-deductible plan? Health Savings Accounts (HSAs) are available to you if your deductible is above $1,350 for single plans and $2,700 for family plans. You are able to invest pre-tax funds into HSAs, and if used for qualified medical expenses, withdraw the funds tax-free. The maximum contribution for 2019 is $3,500 for individuals and $7,000 for families. An additional $1,000 can be contributed if you are over age 55. A spouse over age 55 can also do another $1,000.

Everyone's financial plan is unique. Reach out to your Fee-Only financial planner today for an in-depth check-in of your financial life.

Here are some smart phone apps that we think you might enjoy. Please let us know if you have any new apps that you would like to share with everyone.

- **Castbox**: The Castbox application is a great way to listen to podcasts. This app allows you to subscribe to your favorite podcasts, create playlists, and even set a timer if you are listening to fall asleep! This application is free on all platforms.

- **Instacart**: Groceries delivered straight to your door? Sign us up! Instacart works with local grocery stores to have your items delivered right to your doorstep. The app allows you to order all your groceries from your mobile device. The person shopping for your items can even correspond with you through the application to ensure you are satisfied with their selections. This application is free on all platforms.

- **Nomorobo:** The Nomorobo application is designed to block those pesky spam phone calls. The application lets your phone ring once and then tries to identify the caller. If the app recognizes the number as being on the robo-caller list, it will automatically block the call. This app is currently only available on iPhones; it is $1.99 per month or $19.99 per year.

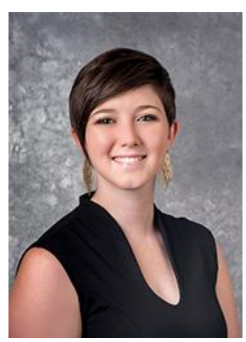
  Mobile carriers such as Verizon and AT&T are also developing their own call-blocking applications that can be used on all types of mobile devices. The cost for these applications can be added to your monthly bill.

Company News

Galecki Financial Management has three team members who have completed the Financial Paraplanner Qualified ProfessionalÊ designation: Alex Martin, Nicole Thieme, and Samantha Schnurr. Alex obtained her designation in 2015, and Nicole and Samantha passed their exams earlier this year.

To attain this designation, Alex, Nicole, and Samantha had to complete a course of study focused on the financial planning process and general financial planning concepts and strategies. A comprehensive examination must be passed at the end of their coursework. In order to renew their designations, sixteen hours of continuing education are required every two years.

Galecki is committed to offering our clients the highest level of knowledge and professionalism.



- Galecki Financial Management Investment Committee

Special Note: If you would like to schedule an appointment with a Certified Financial Planner™ Professional, please visit www.galecki.com.