Q3 2019 Market Synopsis

Economic & Market Update:

The third quarter of 2019 was a very volatile quarter, with US stocks ending marginally higher while other risk assets were generally negative. The US stock market (measured by the SP500) returned 1.7%, while foreign stocks and commodities were down between 1.9% and 6.3% respectively. Bonds and other interest rate sensitive securities had another very strong quarter with all bond classes up between 1% and 3.5%. The SP500 ranged from an all-time high of 3025 to a low of 2844 before recovering to around 3000 at the end of September. Although the period was volatile, the 6% - 7% drop from all time highs fell short of an official 'correction'.

The 10-year Treasury yield continued its extreme drop, and decreased from 2.0% to 1.68% in the period, after recording a low of 1.45%. The historic downward move in rates that started in September 2018, is catapulting normally stable assets upward.

Select 2019 YTD Asset Class Returns (9/30/2019)	
DJ US Real Estate (US Real Estate)	+ 27.5%
Nat Gas/Oil Pipeline Companies (TPYP)	+ 21.5%
S&P 500 (US Stock Market)	+ 20.5%
MSCI EAFE (Foreign Developed Stock Market)	+ 13.0%
High Yield Bonds	+ 11.3%
US Mid/Long Treasury Bonds	+ 9.7%
TIPS (Treasury Inflation Bonds)	+ 7.5%
Private Farmland, Timberland, Infrastructure (VCRRX)	+ 7.0%
Private Real Estate Credit (Mosaic)	+ 7.0%
MSCI Emerging Market (Emerging Stock Market)	+ 5.2%
Alternative Lending (LENDX/RMPLX)	+ 2.4%
Insurance Linked Securities (XILSX/SRRIX)	+ 2.4%

** GPB Capital Holdings II performance discussed in detail on page 4/5*

A large driver of returns and market sentiment in Q3 continues to be FED policy. The FED has now reduced the benchmark Fed Funds rate a quarter point three times in 2019 to the current level of about 1.6%. In addition, the FED has now started to increase the size of the balance sheet (a type of quantitative easing) to the tune of $185B just in the month of September.

Below: *5 Year history of the 10 Year Treasury Note Yield*

The major factors which impacted markets in Q3 2019 are highlighted below:

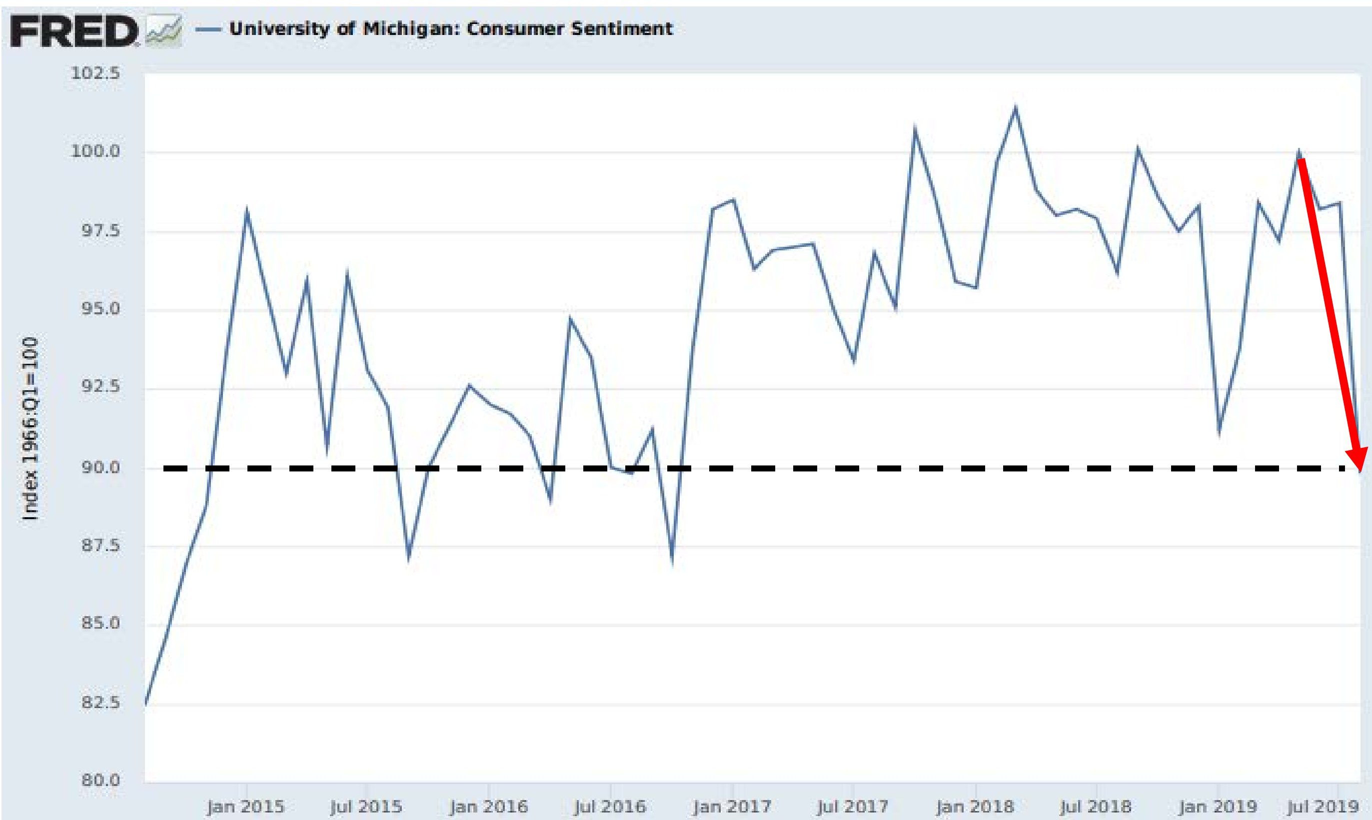
Much like the 2nd quarter, lower interest rates and headlines around trade and specifically the volatile 'China trade war' continued to dominate the markets. Because of these factors, bonds and other interest rate sensitive securities (real estate) continued to perform very well.

The trade war with China largely caused the volatile quarter for all risk assets, with the largest drawdown being a 6%-7% drop in August and the choppy recovery thereafter. It is becoming more unlikely a comprehensive trade deal with China will be completed in the near term, and in fact new tariffs were placed on Chinese consumer goods and even certain European products over the past month. However, as we write this update, there are signs of progress on what is being called a 'phase 1 deal' that could be signed with China by year end. This is certainly a positive development, and with Trump postponing further tariff increases based on the deal, this is certainly pointing to at least a pause in escalation.

Latest developments aside, during Q2, we noticed two things we have not seen prior. One, when CEO's and other business owners are surveyed on their optimism about the future, they are citing the trade war and trade uncertainly as a major worry. This seems to be having an impact on how they are planning their operations. There is evidence that the combination of new tariffs placed on many Chinese sourced consumer goods and uncertainty around any definitive long term trade resolution is causing many businesses to take defensive actions in terms of hiring new workers, investing in technology, or expanding operations (especially overseas).

The second change involves US consumers getting more cautious as well. Below is a five year graph of consumer sentiment. Although still at relatively high levels (as to be expected with unemployment at 50-year lows), there is growing concern on several fronts.

Below: *Five year chart of University of Michigan Consumer Sentiment Survey. Recent steep drop seems to be related to political & trade uncertainty.*



Another issue that emerged towards the end of the quarter was the impeachment inquiry of President Trump. This is likely to be in the headlines and on the minds of many investors for at least the next 2-4 months until a vote is held in the House of Representatives and a final vote is held within the Senate. We do not see this process having any direct impact on the economy, but this just adds to overall uncertainty. Looking back at prior impeachment stock market performance (Clinton & Nixon), we see a mixed result depending on the time you start measurement. Overall, we view this as more of a side-show in terms of actual economic impact, rather than a signifcant risk factor.

The much more meaningful event remains the 2020 election. It is way too early to predict or couch any outcome, but over the next 13 months this will likely be the number one event we will be monitoring. The ultimate resolution could have a meanginful impact on the overall tax regime, trade, corporate profits, regulation, and healthcare should there be a change in presidency and senate control.

Traphagen 2019 Portfolio Changes & Performance Update

After a tough 2018, 2019 is an excellent year across the board for risk assets, bonds, and alternatives. Bonds continue to have the best year in more than a decade with the historical drop in long-term rates from 3.2% on the 10-year Treasury to 1.5% currently.

Almost all risk assets have also responded favorably to the drop in long-term rates and the change in FED policy. This very accommodative and supportive FED gave investors support to bid up stocks, real estate, and commodities.

All of our alternative and private investments are performing near or exceeding return expectations with the exception of GPB (which we will cover in detail later). As a group, the alternative/private class of assets is poised to return between 5% to 6% for the year with very little volatility or relation to any other financial assets.

This combination of positive performance across the portfolio has made 2019 one of the best for our clients in the past decade. Most of our client portfolios (depending on portfolio risk level) are up between 8% and 15% on the year.

Below you will find a summary of recent changes we made to portfolios (mid 2019):

- **Introduction of sector rotation fund:** Over the past 2 months we allocated to a sector rotation fund in many portfolios (DSEEX or DSENX). This is a DoubleLine fund that analyzes each sector within the stock market on a monthly basis and invests in the preferred four sectors based on long term valuation and behavior. In addition, because of the structure of the fund, there is a fixed income yield component as well. This fund has performed well since it was incepted in late 2013, with about a 3% per year advantage over the SP500 and a 2019 return of 22%.

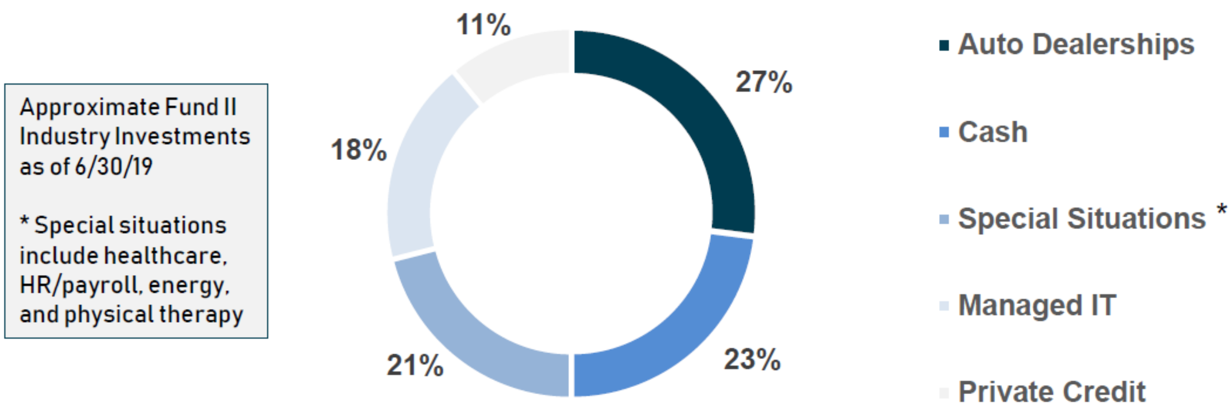
- **Elimination of Emerging Market Stocks:** We have eliminated all direct exposure to emerging market stocks over the past couple months. This comes on top of the 50% trim we completed in the asset class during January of this year. We decided to completely eliminate our position for two reasons; better US prospects/strong US Dollar and a move to be more defensive in response to a slowing of global economic growth.

- **Elimination of Biotech Overweight:** With the introduction of the new sector rotation fund and the increased political risk through the election we decided to eliminate our direct exposure to the biotech sector (BBH).

Private Investment Update *(for accredited investors only; $1M+ with Traphagen)*

Private Equity (GPB Capital): Progress continues to be made through 2019 in terms of operations of the underlying companies within the portfolio and completing the GPB II fund audit.

Below: *Approximate allocation within GPB II Fund amongst equity sectors, cash, and credit.*



In terms of operations, through Q2, portfolio companies were either in line with expectations or in the case of automotive, exceeding forecasts. Per GPB, the overall company portfolio is profitable and producing free cash flow. Once the final audit is complete, GPB expects distributions to be reinitiated and any profits generated from the underlying companies to be distributed to investors. We will have more information on Q3 operations within the month.

On the audit front, we did get some important interim updates recently. Per GPB, Eisner has completed 100% of the entity level audits (individual dealerships, all required portfolio companies, etc.) and 100% of these were 'unqualified' opinions. Obviously, we are very pleased with this result. The last step in the process is to complete the fund level audit which brings all the underlying components together.

As we mentioned as a possibility in the last newsletter, Fidelity has chosen to no longer support GPB funds on their platform (Fidelity will be sending out letters to all GPB holders on 11/15 and 12/15 on this subject; which you can ignore/discard). Traphagen will take care of this transition for you. If your Traphagen wealth advisor/operations team member has not contacted you already, they will be reaching out with more information within a couple weeks. Regardless if the position is held within an IRA or taxable account, the custodian transition will result in no additional cost vs. Fidelity and have no tax consequence.

The completion of the audit is GPB's number one priority as it has large impacts on the ability to purchase/sell their portfolio companies, make deals, borrow money, issue dividends to investors, and execute their strategy.

We expect Q2 fund values to be updated for clients soon. Again, we continue to anticipate a material upward adjustment for all clients vs. the 12/31/18 mark due to improved operations, the sale of one of their portfolio companies to Comcast in May, higher public stock market prices, and the retention of free cash flow. Even with the anticipated uptick in value, we of course are disappointed in total returns of the fund to this point. Starting earlier this year and looking forward into 2020, prospects of the fund have improved. GPB estimates after the Q2 NAV adjustment the majority of our clients will be down between 4% and 9% on the fund since purchase.

Private Equity (KKR Commitments Fund): This is a new private equity 'fund of funds' we are starting to allocate to for some client portfolios. This provides broad exposure over many private equity funds (roughly 80% KKR funds and 20% from other firms). In addition to working with one of the two largest private equity companies in the country, this provides significant diversification in regards to vintage year (year each fund was formed) and sector. The fund has performed well (8.7% per year since inception; 8/2015) and year to date through July, the fund is up 6.5%.

Private Real Estate Credit (Mosaic): We continue to be extremely pleased with the performance of our private real estate credit fund (Mosaic). This has been the best performing asset (along with the SP500) within the entire portfolio since the average client purchase in January of 2018. Mosaic is up around 17% in the period, with essentially no volatility and no drawdowns. For comparison, the global stock market in the same period had a max drawdown of 20% while returning only 6%.

Mosaic continues to expand the number of loans and the average size of the loans in their portfolio. With the combination of a significantly larger asset base and an impressive track record, institutional investors are now joining Traphagen as Mosaic investors. The fund has returned 5.2% through Q2 in 2019, and our estimate of total return through Q3 is between 7% and 7.5%.

2019/2020 Market and Economic Outlook Update:

We continue to hold a mix of short and intermediate term bonds due to the flat yield curve and higher or comparable yields available on short term bonds vs. longer. As mentioned prior, we have made other changes, that while maintaining roughly the same level of stock exposure (except in conservative portfolios), shifted to a slightly more defensive stance. We continue to allocate to a wide range of alternative/private investments, as they are performing well and have had very low volatility and correlation to traditional financial markets.

Mixed signals for the US economy and more cautious data points for the global economy persist. On the plus side, unemployment now stands at a near 50 year low of 3.6%, consumer confidence remains relatively high (despite the recent decline), consumer spending is robust, and interest rates are very low. Because of very low unemployment and interest rates, real estate (which represents a large percentage of many investors total wealth) remains in a strong position.

In addition, after the historic shift in FED policy at the end of 2018, investors believe Chairmen Powell, the FED, and most global central banks will be accommodative to risk assets for the foreseeable future.

On the other side of the coin, US and foreign economies have slowed and US corporate earnings growth looks to be near 0% in 2019. In our last newsletter we stated the majority of stock returns for 2019 were likely in the books, and so far that certainly has been the case. Since that time we have seen a 1% increase in US stocks and material down moves in foreign stocks.

From this point forward, Traphagen will be paying special attention to the 2020 election and the likely impacts from it's outcome. Again, at this time we are not making any portfolio moves due to the election, but as we get more clarity that is certainly a possibility.

The TRI (Traphagen Recession Index) can be interpreted as the chance of a recession beginning over the next 12 months. This measure had been gradually rising over the past two years, but did reverse course over the past couple of months and now sits just below 50%. We still consider this metric somewhat elevated, and over the past month we have taken some defensive action in response to this. We will continue to monitor for any further significant movements, but we are happy with portfolio positioning at the current time.

As always, we greatly appreciate the privilege of providing financial guidance and managing your portfolios. We hope you all have a wonderful end of the year and holiday season.

Best regards,
Your Traphagen Investment Team