NorthLanding Financial Partners, LLC

Quarterly Model Portfolio Update

January 17, 2019

U.S. Economy & Financial Market Observations

The 4th quarter of 2018 ushered in the most adverse conditions in financial markets we've experienced in the last 10 years. The S&P 500 fell **13.5%** during the quarter to finish 2018 with a total return of **-4.4%**. Small and mid-size company stocks fared worse, with both representative indexes slipping **-11%**. Internationally, stock indexes were even weaker with returns from broad international and emerging markets indexes at **-14.2%** and **-13.3%**, respectively. With the Federal Reserve hiking interest rates, as expected, four times throughout the year, bonds generally provided flat or slightly negative returns. The Barclays U.S. Aggregate Bond Index eked out a positive return of the slimmest margin during calendar 2018 at **+0.01%**. Global bonds hedged against the U.S. dollar and Municipal Bond Indexes were the only major asset classes we track with higher total returns, coming in at **+1.28%** and **+1.76%**[1] respectively. Even in a well-diversified portfolio, 2018 proved to be a year where there was nowhere to hide.

Recent market disarray and anxiety has been attributable to a variety of factors:

- The potential risk for the Federal Reserve to make a policy mistake, raising rates too quickly.
- Data showing a modestly slowing global economy has caused investors to revalue future estimates of corporate profits.
- The prolonged trade conflict with China has increased uncertainty and could slow global growth and escalate geopolitical tensions.
- The lingering government shutdown creating a drag on Q1 GDP. It has also caused the Commerce Department to stop releasing certain economic data which heightens anxiety.

However, many major economic data points have remained strong – highlighted by December's blockbuster jobs report. The recent pessimistic tone in markets, we feel, is likely ahead of the evidence. For example, in January, the Atlanta Fed estimated 4th quarter GDP had slowed to 2.8% - below recent quarters of GDP growth that had trended between 3.0% and 3.4%. Remember, though, that a modest slowdown in economic growth like this is *not* tantamount to a recession. A recent Wall Street Journal poll of economists indicated a 25% chance of a recession in 2019, but we do not believe that such a probability justifies the worst December in the S&P 500 since the Great Depression.

Index	2018 Total Return
S&P 500 Composite	-4.38%
S&P Mid-Cap 400	-11.08%
Russell 2000	-11.01%
MSCI ACWI Ex U.S.	-14.20%
FTSE Emerging Markets	-13.34%
MSCI U.S. REIT	-5.83%
Barclays U.S. Agg. Bond	0.01%
Barclays U.S. High Yield	-2.08%
Barclays Global Agg. Bond ($ Hedged)	1.76%
Barclays Global Agg. Bond (Unhedged)	-1.20%
Barclays Municipal	1.28%
Bloomberg Commodity	-12.99%

Current Portfolio Stance & Outlook

Today's headlines are generally misleading as forward-looking indicators for when or how to invest. We would remind you, you always have permission to ignore the financial media – as philosopher Arthur Shopenhauer once quipped, "Journalists are like dogs, whenever anything moves, they begin to bark."

(OVER)

Quarterly Model Portfolio Update (Continued)

With no disrespect to any of the financial media, because the market itself is forward-looking in nature, "If it's in the paper, it's already in the price." As markets have corrected, valuations have also become more attractive, with the forward price-to-earnings ratio recently at 14.9 times earnings, a level modestly cheaper than average over the last 25 years. While a volatile market that is "modestly cheaper than average" may not seem incredibly attractive, consider the following points as evidence that the most probable course to success is staying invested in a diversified portfolio:

- 4 out of 5 times (or 80% of the time) when market indexes have corrected between 10-20%, they have not turned into bear markets.
- The year following a mid-term election has been, historically, one of the best periods to invest with the S&P 500 up 15% on average during this period since 1950. (This may prove to be particularly relevant in 2019 in a pre-Presidential election year with extra incentive to resolve the trade war and enact pro-growth policies before the next election.)
- Since World War II, the average S&P 500 return in the 12-months following a -10% decline has been 15.94%.

Our most recent October portfolio rebalancing was completed after a significant first leg of Q4 volatility. It marked the 4th time in the last two years that we had harvested profits from primarily equity positions. Though, we did evaluate portfolio weightings closely again in January to determine if an out-of-cycle rebalancing was warranted, the late December and early January rally left Core Model Portfolios very near their target asset weighting.

NorthLanding Financial Partners, LLC

We are committed to empowering our clients to discover and direct action toward their most important financial goals. Our advisors have over 100 years of combined experience and advanced credentials in counseling clients to develop and implement strategies to meet their personal and family financial objectives.

We welcome your feedback!

Email feedback or questions to:

Info@NorthLandingfp.com

NorthLanding Financial Partners, LLC
90 Linden Oaks, Suite 220
Rochester, NY 14625
(585) 497-5000

www.northlandingfp.com

While no immediate trading activity occurred, it's worth noting that Core Model Portfolios had gradually been prepared to weather volatility over the past two years. In analyzing our current stance, we find several areas of portfolio positioning that may allow for rebalancing opportunity as we continue to monitor our asset weightings:

- We maintain lighter exposure to small and mid-cap stocks that can be most economically sensitive to a further downturn.
- Our addition to real estate in April was a positive for Core Model Portfolios – after turning in a dismal first quarter, the MSCI US REIT Index had a positive total return of 1.34% during the last nine months of the year even given the 4th quarter downturn.
- Core Model Portfolios remain very lightly weighted in high yield corporate bonds. With corporate debt levels near record highs, concentration in higher quality bonds remain our best ammunition to take advantage of any further downward volatility that may occur.

Practically speaking, we have many uncertainties in today's financial markets (but we always will). We believe your portfolio remains well-positioned to face the reality of this uncertainty, guided by investment principles that will continue to serve you well. As always, we encourage you to look through that uncertainty and focus on the controllable: your personal economic planning with your NorthLanding advisor. We welcome any questions on this update or your situation before our next personal review.

NorthLanding Financial Partners, Investment Direction Committee

1. Investment index and NLFP portfolio performance data through 12/31/2018 is provided by Morningstar and believed to be accurate as of the date of this publication, gross of any advisory fees. Other sources include the Wall St. Journal, FactSet Research, and Strategas. All investment strategies including diversified asset allocation have risk. Past performance of our investment approach, and component holdings does not guarantee future results. Advisory services are offered through NorthLanding Financial Partners, LLC, ("NLFP") Registered Investment Advisor. While all data is believed to be from reliable sources, accuracy and completeness are not guaranteed.