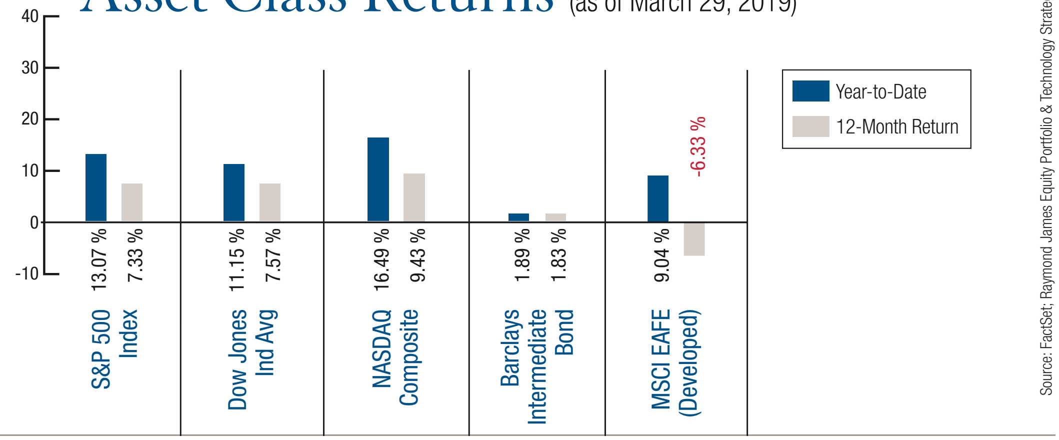
STONEGATE FINANCIAL

MARKETUPDATE

"Invest in yourself as much as you can.
You are your biggest asset by far."
-Warren Buffett

Asset Class Returns (as of March 29, 2019)



MARKET/ECONOMIC SYNOPSIS

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Since the day after Christmas, December 26th, 2018, this market has been on a tear, gaining over 20% from the Christmas Eve low. I was in the office on the 24th and had a hard time leaving even after the market had closed. The volatility we were experiencing was nothing short of unbelievable, and it possibly marked a short-term low in the longest bull market on record. This historical run started on March 9th, 2009, and since that date the S&P 500 is up a "mere" 312% as of February 28th, 2019. Unfortunately, many have not had the good fortune to experience all of this upside for various reasons. Some folks let the severe bear market of 2007 & 2008 get the best of them, selling their stocks near the market's bottom, remaining in cash for quite some time, and waiting for the perfect opportunity to get back in the market. Some stayed in savings accounts, missing the market's upside, not even keeping up with inflation considering the paltry rates that short-term instruments were paying. Others remained shell-shocked by the S&P 500's 56% decline and vowed never to invest again.

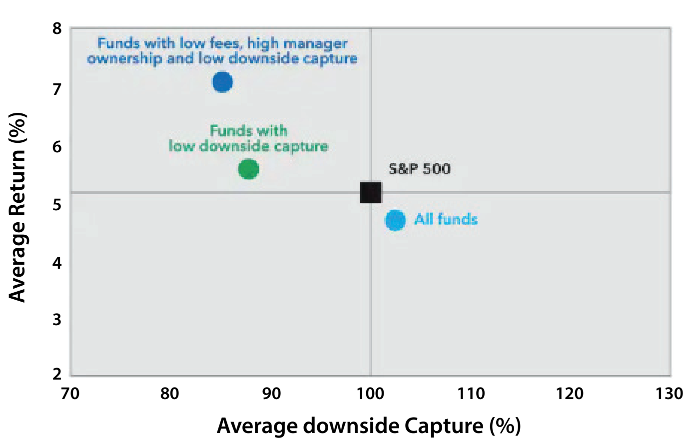
The last ten years have rebuilt our confidence, but where are we now? Should we be concerned? Bull markets do not die of old age - they die when the economy weakens, market "bubbles" form, or we experience a black swan event. There is a saying on Wall Street, "Don't Fight the Fed", and until mid-January the Fed was on a continuous path of interest rate hikes and we were expecting three or four additional rate hikes in 2019. But early this year the Fed abruptly changed course and their language became much more accommodating which the market has loved. Even though we are starting to see some signs of weakness in the economy, we're not ready to throw in the towel yet as we feel there are plenty of good signs that this economy and bull market can continue to move higher. However, with the recent downturn of over 19% in the fourth quarter of 2018, and a few other red flags that are starting to be waved, we feel a slight bit of caution is prudent and we will become more cautious if we see the indicators showing signs of potential trouble ahead. In the meantime, we'll continue to enjoy the markets upside all the while paying close attention to what may be lurking in the next year or so.

What you may hear from others

With all of the favorable market growth, I should address an interesting viewpoint circulating in the investment industry. Some advisors are recommending to only buy market indexes and hold them through all types of market conditions. Many are also touting that active money managers CAN'T BEAT THE INDEXES. I disagree with those opinions for a few reasons. First, those comments are based on the returns for the "average" mutual fund manager. Who wants to buy an average money manager! If you were starting a company, would you be looking for the best talent you can get your hands on, average talent, or worse yet - below average workers? Second, please remember that if you are purchasing an index-only portfolio then you will experience the full impact of the market's downturn, PLUS WHATEVER ADVISORY FEE YOU ARE PAYING. So in reality, you are guaranteeing yourself not to beat the market indexes you are invested in. Folks that owned the S&P 500 index in the last bear market would have been down over 56% at the worst point and it would have taken 4 years to recover. Carefully selected actively managed investments have the potential to mitigate this draw down and experience a possibly shorter recovery period.

Our thoughts on how to proceed

Wouldn't it be great if we could always get all of the S&P 500 growth of the last ten years without a bear market? Since that's not likely to happen, we prefer to implement a safety-first investment management approach especially when we feel the risk of a bear market is increasing. With in-depth research and analysis, we seek to find the "best-in class" securities for your portfolio. We focus our efforts by evaluating funds based on their downside market resilience (also called downside capture), low fees, and high levels of manager ownership. By doing this, we feel we eliminate most of the "average" money managers. Our favorite illustration on this idea can be found below from American Funds. What you will find is that when you utilize these research filters (low costs, high manager ownership, and low downside capture), active managers can actually beat the indexes over time. When you perform in the upper left-hand quadrant of the chart, you are outperforming both the benchmark and most other funds, while also taking on less risk to achieve those results.



The second consideration we make is to build a portfolio allocation based on our clients' risk tolerance and time horizon. We then adjust the amount of risk we are taking in these portfolios based on many economic and market factors that we follow. As an example, in the summer of 2018 we reduced our longer-term bond exposure due to the Fed raising rates which helped our bond portfolios finish the year in positive territory after advisory fees, whereas the Bond Aggregate finished the year in negative territory before fees were assessed. We look to slightly decrease our equity exposure when we feel the risk of a bear market is increasing and the economy is weakening. We will also increase our equity exposure when we feel the markets are at extreme lows and the economy is starting to turn around.

At Stonegate we will continue to invest your hard-earned money in a smart manner, keeping tax-efficiency in mind; in a fiduciary manner, putting our client's best interest before anyone else's interests. We do this in a cost sensitive manner, knowing that we all want to feel as though we are paying a fair amount for what we are receiving.

FINANCIAL PLANNING CORNER

Alex Greene, CFP®, AAMS®, AWMA®
Financial Advisor, RJFS

The Value of Youth on Your Financial Planning Team

"Wisdom doesn't necessarily come with age. Sometimes age just shows up all by itself."

– Tom Wilson

I am a bit of a movie fan, and among my favorites are both the Lord of the Rings trilogy and the Star Wars series (there must be 12 Star Wars films now?). Throughout all these movies there are many great quotes, but despite the numerous options, none seemed to fit this discussion better than the one above.

There is a lot to be said about age and wisdom, but as the quote suggests – they don't always go hand in hand.

When it comes to looking for, or working with a financial advisor, there is certainly value in partnering with a more seasoned advisor that may bring their share of wisdom and experience to the relationship. However, the financial advisor and client relationship is also a very unique one. Within that relationship, we feel there are many reasons where having a young advisor has immense benefits. If you look at the Stonegate Financial team, you will notice some younger faces than your average firm. For the industry as a whole, the average financial advisor is in their early 50s, but that number is steadily rising. Looking more specifically at the age demographics of CERTIFIED FINANCIAL PLANNER™ certificates in the chart below, you will see that over 47% are age 50 or older, and over 72% are age 40 or older. Just for comparison, the average advisor age at Stonegate is just over 39!

Ages:

Age	Number	Percentage
No age given	981	1.18%
20-29	4,211	5.06%
30-39	17,756	21.33%
40-49	20,551	24.69%
50-59	20,033	24.07%
60-69	15,188	18.25%
70-79	4,179	5.02%
80+	334	0.40%

*Percentages are based only on those who have responded to this question from CFP Board.

What are Some Benefits of a Younger Advisor or Financial Planning Team?

- **Technology:** Most people would agree that technology is having a larger and larger impact on our lives and how we do things. For the responsibilities of a Financial Advisor it is no different, and technology is rapidly having a bigger significance on how our work is done. Some say that the younger generation is too plugged into their devices and their digital lives – this is coming from a millennial! However, younger advisors have also grown up during a time when technology evolved quicker than ever before. With that experience comes an innate ability to navigate and adapt to the technological landscape. The young advisor may be better prepared to improve processes by harnessing the latest financial industry technology, find more innovative solutions to serve our clients, and ultimately create a better client experience.
  We are entering a time when it's not 100% about what you know - but having the resourcefulness to use technology and find solutions.
- **Retirement:** Most young advisors aren't retiring anytime soon! That is a huge benefit for a client who needs advice for longer than the next 5, 10, or 15 years. In some cases, having an advisor who is the same age can be a detriment because they may retire when you do and they are not able to see you to, and through, retirement. Having an advisor, or better yet a multi-generational team, who can see you through all critical stages of life is an important consideration.
- **History:** Many of today's young advisors can't relate to growing up through the Great Depression, however, many were of an age to witness the second worst bear market in history – The Great Recession. This period was a "crash course" on how a major bear market and economic recession can develop, and young advisors watched first-hand how it affected their parents and relatives. Through this time, witnessing the experiences of these same parents and relatives, they learned what worked and what has not. Topics like long-term care, Social Security, and healthcare are huge concerns in today's environment and these costs are not what they used to be. Young planners have grown up in this landscape and understand the financial challenges of "today".

Ultimately, we would argue there is even more power in a team. Combining the value added by these younger advisors into a multi-generation team can help as you progress through life and all of its challenges, and create a smoother transition through life's inevitable changes. Our team at Stonegate is built to identify and meet our clients' needs throughout all stages of life by combining the strengths of advisors with varied experience and insight to serve clients over multiple decades.

AROUND THE OFFICE

Welcome baby Evelynn!

The Maiers Family welcomed their newest addition, Evelynn Rose, on January 30th! She came in at 6 lbs 11 ounces and is now over 10 lbs. Ashley and the baby are doing great and actively seeking out ways to get more sleep! With the addition of their new pup Troy, they are now officially getting close to Brady Bunch numbers! Brooke, Haiden, and Addison are all enjoying their new little sister, and Evelynn is enjoying watching them play soccer on the weekends. While the world is still a little confusing for her, she is beginning to share more big smiles!

Terry and Becky are finishing up a trip to Italy to visit their son, Kevin, who is doing a semester study abroad in Florence. What a great excuse to see another part of the world that has so much history and culture! While there, they have been exploring many other parts of the country including Rome, Venice, Tuscany and the Amalfi Coast. They have also been enjoying lots of great food which is fortunately offset by lots of walking!

Alex and Lane have had a fairly uneventful couple of months while Lane has been busy traveling for work, but they did have a chance to see Elton John on his farewell tour in Raleigh as well as run in their first 5k together! With Lane's travel schedule slowing down in the coming months, they are looking forward to hiking Mt. Mitchell State Park in April and warmer weather so they can spend some time out on the water.

Heather and Thomas are looking forward to a D.C. getaway to celebrate Heather's milestone birthday. In order to take full advantage of Heather's first time in the nation's capital, they're delaying the celebrations a couple weeks so that they can be sure to get the full experience of the Cherry Blossom Festival mid-April. Feel free to pass along any of your favorite restaurant/activity recommendations!

Lauren and Brett have been busy on the stage in their most recent musical, Bonnie and Clyde, at North Raleigh Arts and Creative Theatre. When they're not at the theatre, Lauren has been plotting lots of house projects for Spring and a bit of wedding planning. It's been a wonderful March too as Lauren's parents have been in North Carolina to visit – and escape the Wisconsin snow, of course!

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