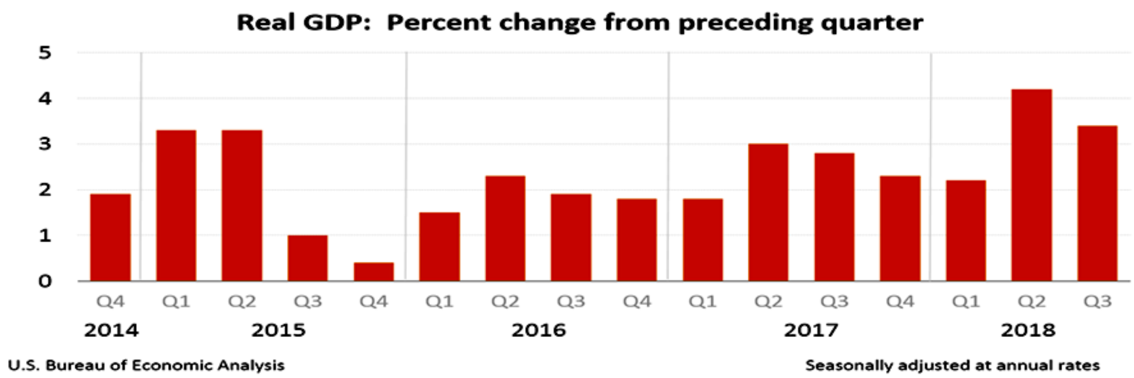
CLIENT BULLETIN

Economic Overview: slowing back to Trend.

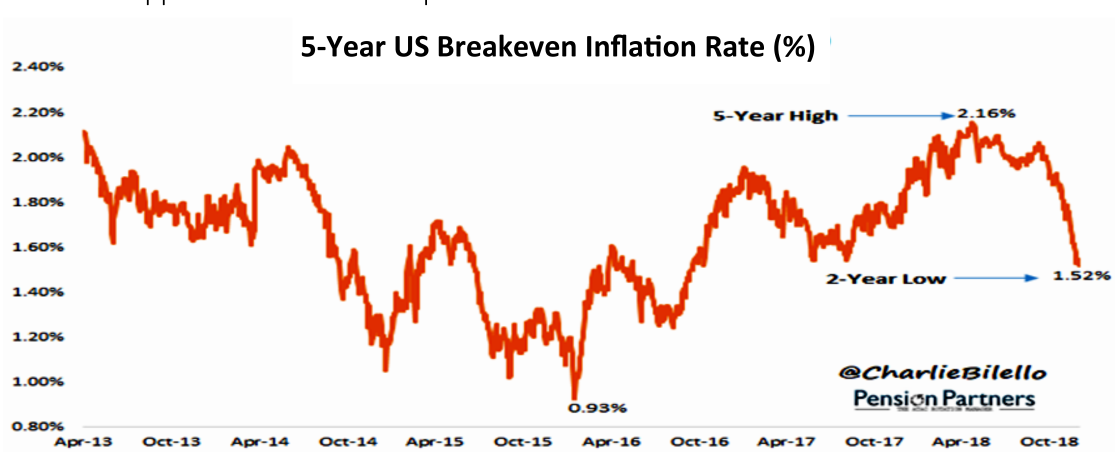
The US economy grew nicely in 2018. After 2.0% growth in the first quarter, GDP growth accelerated to 4.2% in Q2, and remained strong at 3.4% in the third quarter. We expect GDP growth to come in around 2.0%-2.5% in Q4, about in line with its longer term growth potential.



While leading indicators, Purchasing Managers Indices (PMI), and oil prices all imply a slowing economy in 2019, we have to remember the slowdown is coming from exceptionally strong levels. Consensus expectations are for 2.5% GDP growth in 2019. We do not foresee a recession this year.

Monetary Policy: The Pause That Refreshes?

The Federal Reserve raised interest rates 100 basis points since the start of the year and 200 basis points since the start of steady rate hikes in December, 2016. It has also been reducing its balance sheet by selling bonds to the tune of $400 billion (about 11% of the total) since January, 2018. By selling bonds it is draining liquidity from the system, another impediment to growth. Starting in September, investors began to worry that the Fed was becoming too restrictive and the stock market started to decline. By December it was in free fall as the Fed signaled it planned to raise rates another two times in 2019 and continue to reduce its balance sheet. In early January, Chairman Powell finally tuned in to what the market was saying and announced that interest rates were near the Fed's target and that any other changes to monetary policy would be "data dependent," implying that more rate hikes are on hold. We believe it is prudent for the Fed to take a wait and see approach as inflation expectations are on the decline.

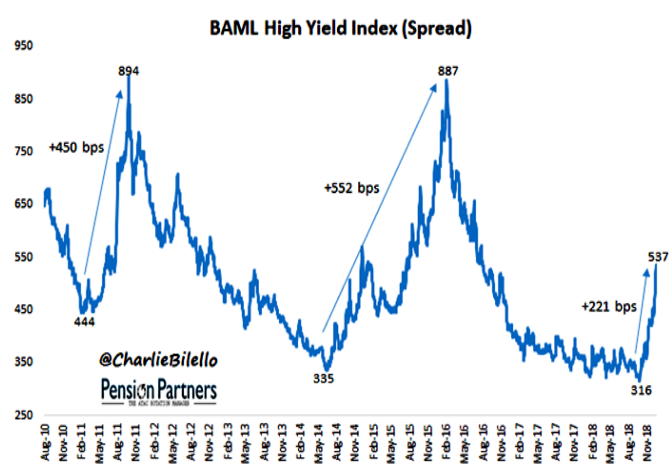


Fiscal Policy: Tariffs, Tweets, and Turbulence.

Investor confidence has been shaken due to a lot of fiscal uncertainty. Tariffs, while hard to quantify, have clearly had a direct, negative impact on GDP. For example, tariffs on raw materials put pressure on profit margins and have led several companies like Ford and DowDuPont to temper profit outlooks. Additionally, the uncertainty surrounding the tariff landscape has caused many companies to stall capital spending plans. Also, while the stock market has gotten used to President Trump's "tweet storms," it was caught off guard when the President threatened to fire Chairman Powell. Finally, the continuing government shutdown coupled with new membership in the House of Representatives could lead to more uncertainty.

Fixed Income: Shelter From The Storm.

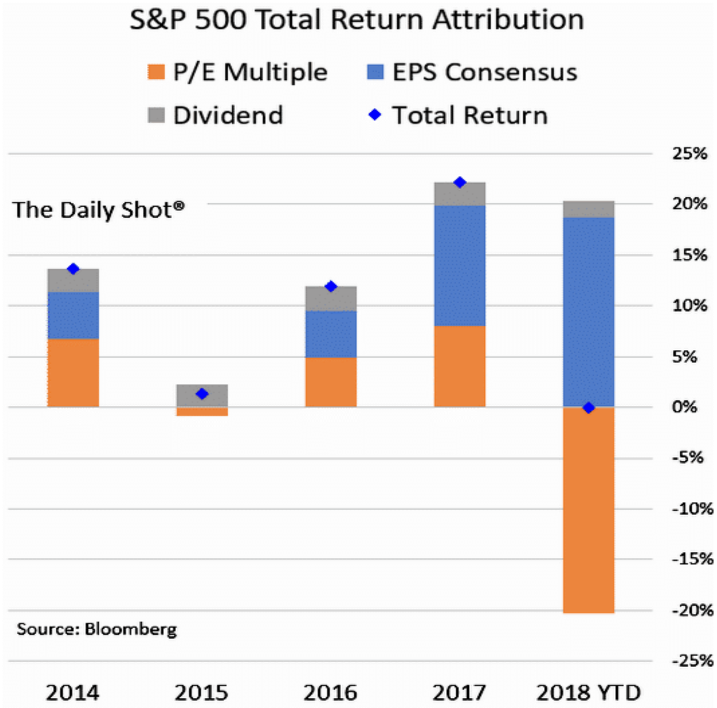
The US 10 year Treasury peaked in early October at 3.26%, a seven year high, and then rallied hard for the rest of the year, closing at 2.69%. Investors who wanted the safety of US government bonds worried that the stock market decline which began in September would continue. During this time, the spreads (difference in yield over US Treasuries) on investment grade and junk bonds widened meaningfully, but from historically tight levels.



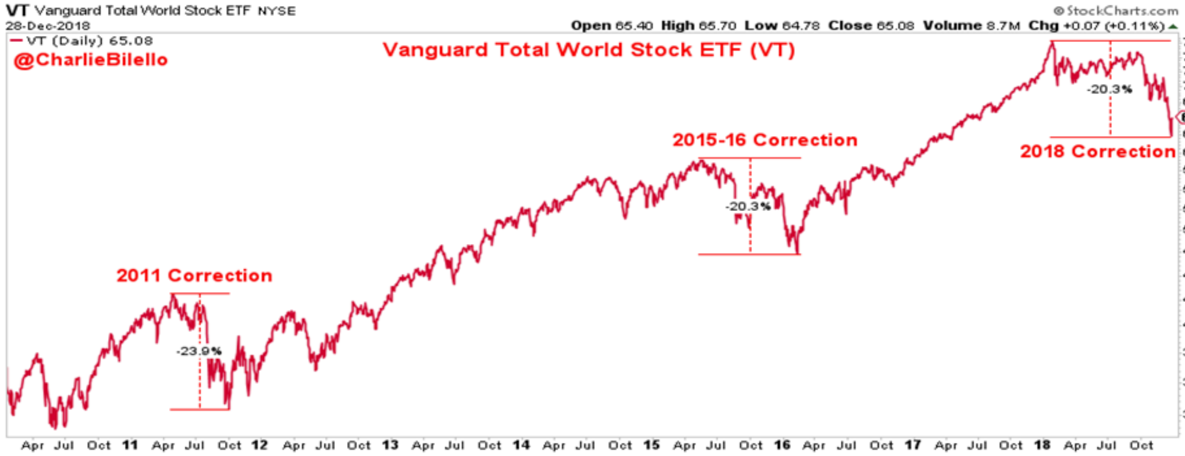
Wider spreads indicate stress in financial conditions. While we acknowledge that financial stress is higher, we don't believe the added stress is enough to warrant any changes to our fixed income strategy. During 2018 we methodically added to US Treasuries and reduced corporate bonds.

EQUITY MARKETS: PRICE-TO-EARNINGS MULTIPLE CONTRACTION.

The story of the 2018 stock market was one of shrinking P/E multiples. Earnings grew rapidly in 2018 and when the final numbers come in, we believe earnings will have risen close to 20%. That is an outstanding result, yet the stock market finished in negative territory on the year. The reason is the P/E multiple contracted by close to 25%, more than the increase in earnings and dividends. As we discussed earlier, a restrictive Federal Reserve, uncertain fiscal policy, and the prospects for slower growth (and possible recession) resulted in a P/E multiple shrinking by one of the largest amounts on record for a single year. The good news is that earnings should still grow by about 8% in 2019, and P/E ratios are now about 15X, which has been a historically attractive valuation over the last 20-25 years. Barring a recession, 2019 could be a good year for stock market investors.

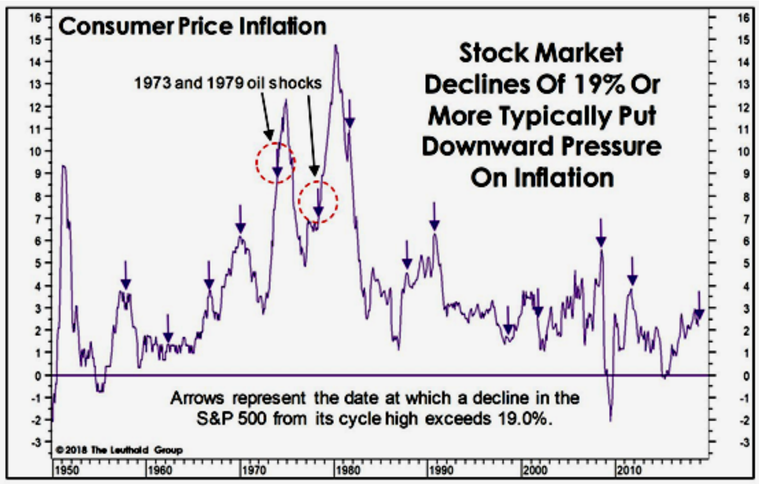


From the stock market peak on September 20th, 2018, the S&P 500 fell by 19.8% to the December 24th, 2018 close, within 0.2% of an official bear market. Not quite a bear market, but close enough for us. Worldwide, most stock markets were down more than 20% at some point during 2018.



Investment Outlook: It's The Economy...

The fourth quarter collapse in stock prices and Treasury yields has set us up for above-average stock market returns in 2019, assuming the economy cooperates and continues to grow in the 2.0%-2.5% range. Inflation expectations have declined meaningfully as oil prices (Brent) declined from $85 in October to below $50 in late December, lowering the cost of input for many businesses. Severe stock market declines also typically put downward pressure on inflation. The Fed has ample reason to pause and wait for more economic data.



Financial Market Scoreboard Calendar 2018 Total Returns

Equity Indices	
S & P 500:	-4.4%
Dow Jones:	-3.5%
Nasdaq Composite:	-2.8%
Fixed Income Indices	
Long Term Treasury ETF:	-1.6%
Barclay's Govt/Credit:	-0.4%

Two sectors that remain attractive in our opinion are banks and energy. We are finding decent value in banks, a sector whose stock prices have collapsed 25% over the last three months. Yet, we believe balance sheets are in good shape, dividends are safe, and in many cases yield over 3%. Valuations suggest investors are already assigning a high probability of recession, which to us implies the downside is limited from here. Energy companies have significantly lowered the cost of producing oil, offer 4% dividend yields, and are valued as if the current low cost of crude will never go higher. Our equity portfolio as a whole continues to focus on companies that have solid balance sheets, robust profitability, and strong competitive positions within their respective industries. We believe these companies can weather economic downturns better than their peers and emerge stronger than they were heading into a downturn.

Administrative: We are pleased to announce that our own Chuck Posnecker has recently completed the CFP® Certification Process. The CFP® certification is a voluntary certification recognized in the United States for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. To attain the right to use the CFP® marks, an individual must satisfactorily fulfill requirements in Education, Experience, Ethics, and pass the comprehensive CFP® Certification Examination.

As required by Cypress Capital Policy, we are providing our updated Corporate Proxy Voting Policy for 2018.

Disclaimer: Any projections, outlooks, or assumptions should not be construed to be indicative of the actual events which will occur. Discussions, market conditions, objectives, and strategies set forth herein are specifically subject to change if market conditions change, or if the Adviser believes in its discretion, changes and/or modifications are warranted accordingly.

January 2019