Dear Clients and Friends,

The third quarter saw a mixed performance in asset markets as increased concerns about an economic slowdown served to increase volatility relative to the experience during the first half of the year. The S&P 500 had a total return of 1.7% in the quarter and global stock markets were up 1.2% based on the MSCI All Country World Index. The U.S. bond market (as measured by the Bloomberg Barclays US Aggregate Bond Index) returned 2.3% and the gold price rallied 3.8% both spurred by expectations of an easier monetary policy in most parts of the world. Emerging markets (as measured by the MSCI Emerging Market exchanged traded fund) fell 4.4% while the S&P Goldman Sachs Commodity Index declined 4.2% likely reflecting those asset classes' greater sensitivity to global growth.

More Cautious Equity Market Outlook

Our thinking on equity markets has become a bit more cautious over the last few months. We are not outright bearish as two significant supportive conditions continue to exist: easy money and attractive valuations relative to interest rates. However, increased economic, political, and geo-political uncertainty cause us to believe that earnings growth is unlikely to accelerate, and earnings multiples will struggle to expand further. This occurring at a time of numerous extremes in the valuation of U.S. equities relative to most other asset classes (other than fixed income) has caused us to reduce our return expectations for U.S. stocks over the coming months.

1.) *Easy money*: The monetary backdrop has continued to improve in recent months. The Federal Reserve has now cut the Federal Funds rate twice in recent months and the futures market is discounting 1-2 more rate cuts over the balance of the year. The rate on the U.S. 10-year Treasury note has declined to under 1.60% from 3.25% a year ago. Current mortgage rates of 2.75-3.75% on most loans are resulting in an increase in refinancing activity and should be supportive to the U.S. housing market. Also, the European Central Bank recommenced quantitative easing last month.

2.) *Valuation relative to fixed income supportive*: The nearly 5.0% earnings yield and 2.0% dividend yield available in the S&P 500 at present have become increasingly more attractive as U.S. 10-year Treasury yields have fallen to almost 1.50% and $15 trillion in global bonds currently yield negative rates. The earnings and dividend yields on the S&P 500 are currently among the most attractive relative to fixed income in recent history (**Charts 1 and 2**). We expect this situation to continue as deflationary pressures around the world coupled with slowing growth will keep downward pressure on market interest rates and encourage further moves by central banks to ease monetary policy.

3.) *Increased economic, political, and geo-political uncertainty*: Growth in the U.S. and around the globe has continued to slow in recent months. The significant misses in the most recent Manufacturing and Services ISM Indices provided the latest indications that the domestic slowdown may be intensifying. The inversion of the 3-month versus 10-year segments of the U.S. yield curve, a leading indicator of prior recessions, has remained inverted **(Chart 3)**. The news flow out of Washington is unlikely to be equity-friendly over the next thirteen months with continued impeachment efforts and focus on progressive economic policies in the run up to the

Democratic presidential primary and possibly beyond. The potential of a further escalation in the U.S./China trade war, a "no-deal Brexit", and heightened tensions in the Middle East provide additional reasons for concern.

4.) Relative valuation extremes: What strikes us most strongly when looking at current markets is the multitude of extremes in relative valuations of U.S. equities (exception in the case of fixed income). U.S. equities are expensive compared to their own history, compared to European and global equities, and compared to gold **(Charts 4, 5, 6, 7)**. This valuation extreme is most pronounced in the growth segments of the U.S. market **(Chart 8)**.

Chart 1: S&P 500 Earnings Yield Versus 10-Year Treasury Yield

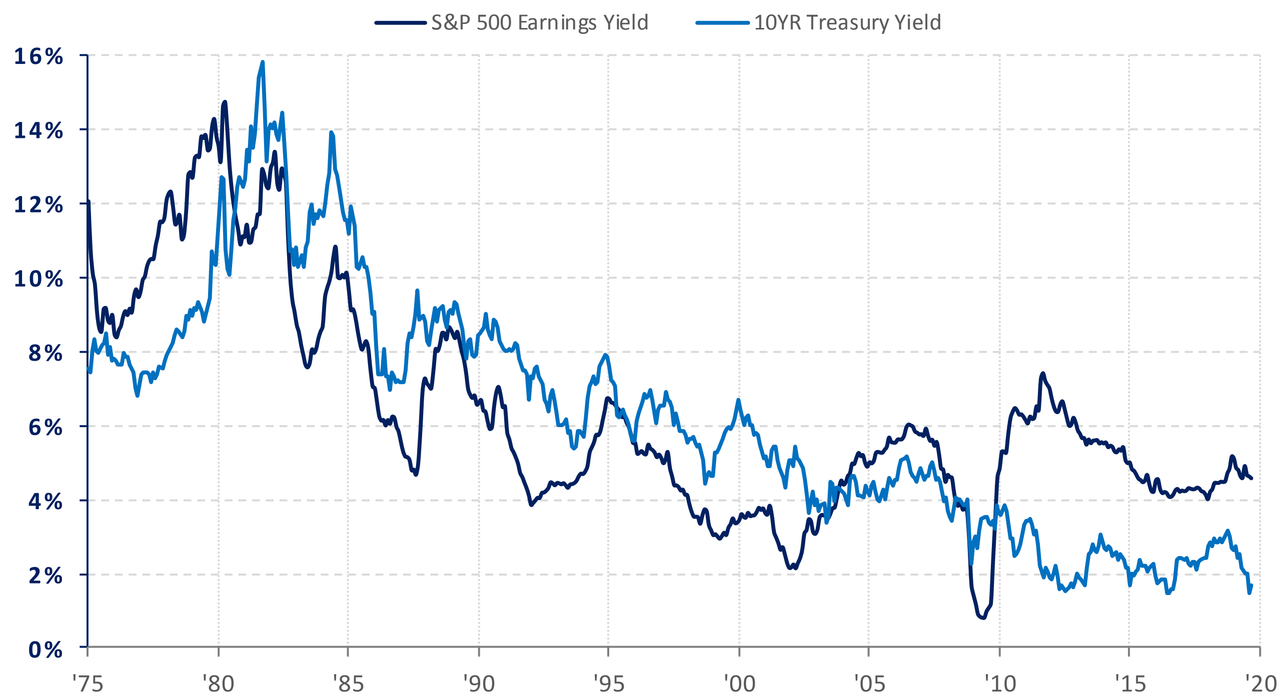


Chart 2: S&P 500 Dividend Yield Versus 10-Year Treasury Yield

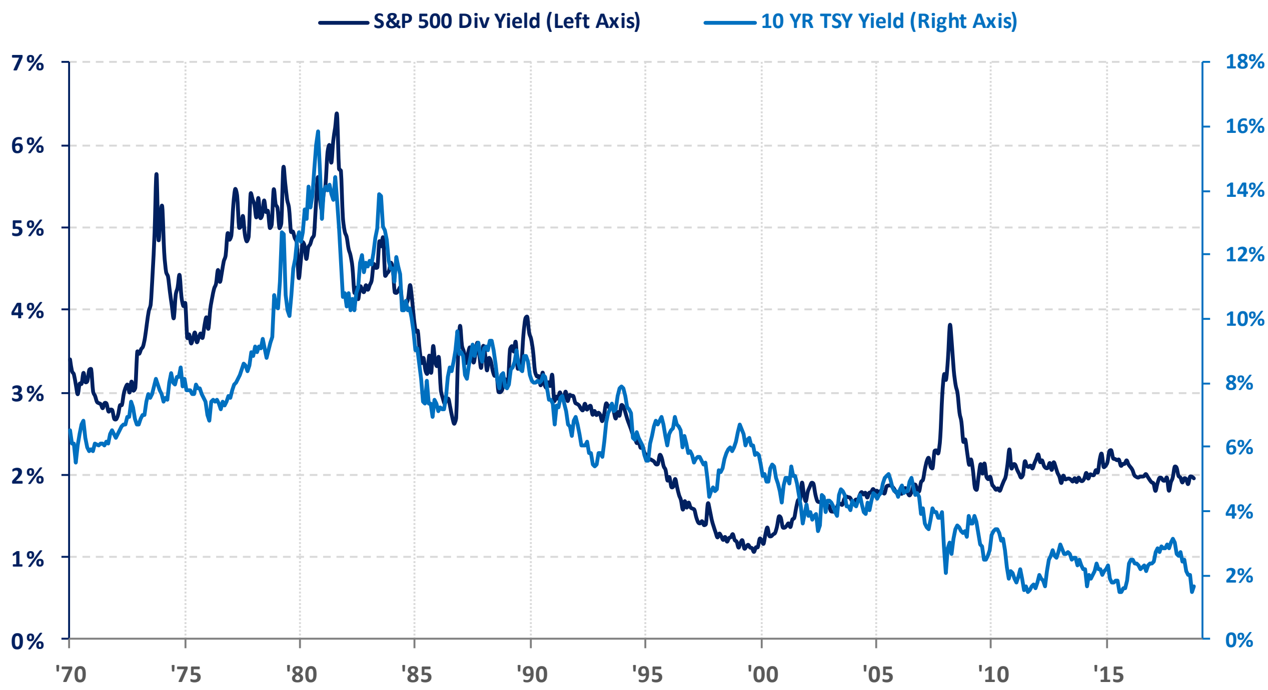


Chart 3: 10-Year Treasury Yield Minus 3-Month Treasury Yield

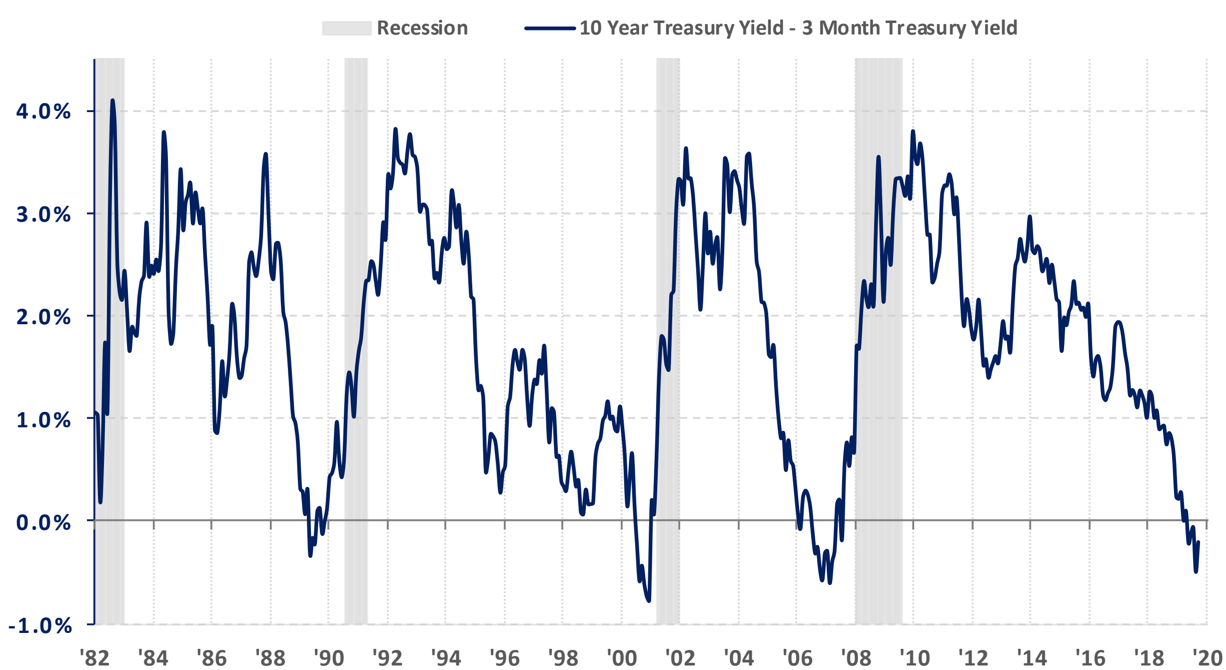


Chart 4: Cyclically Adjusted Price-Earnings Ratio

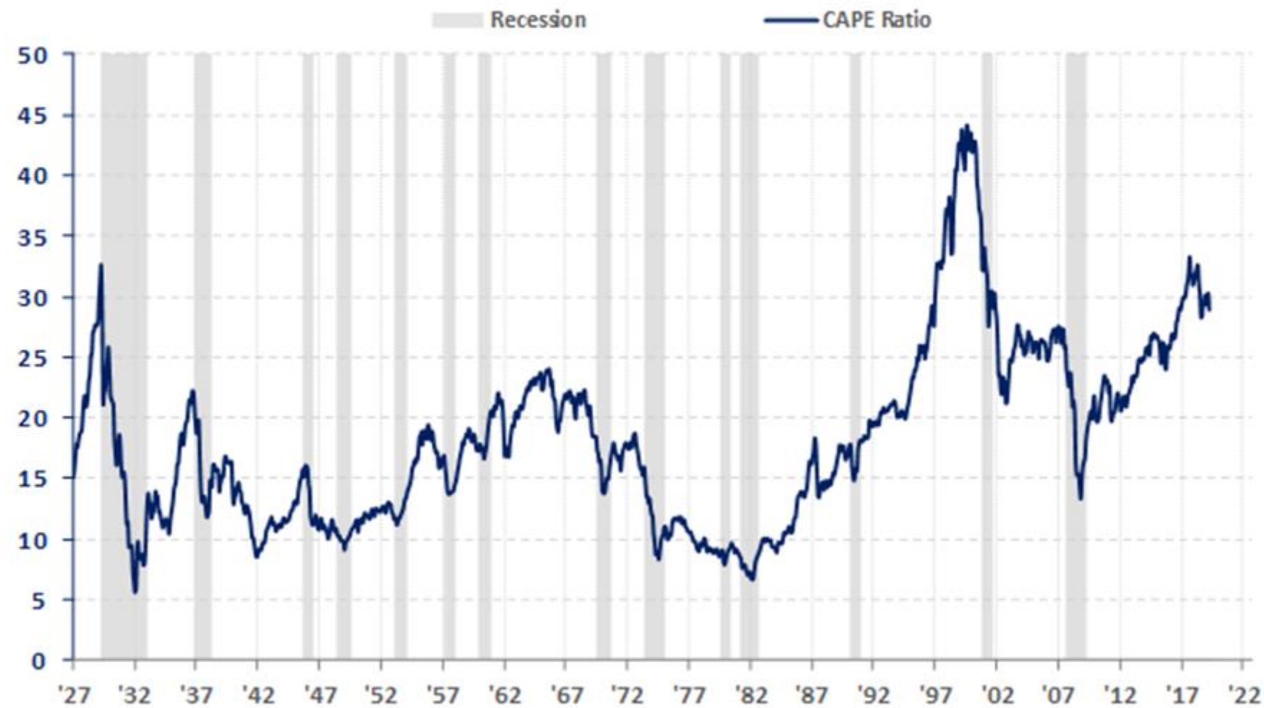
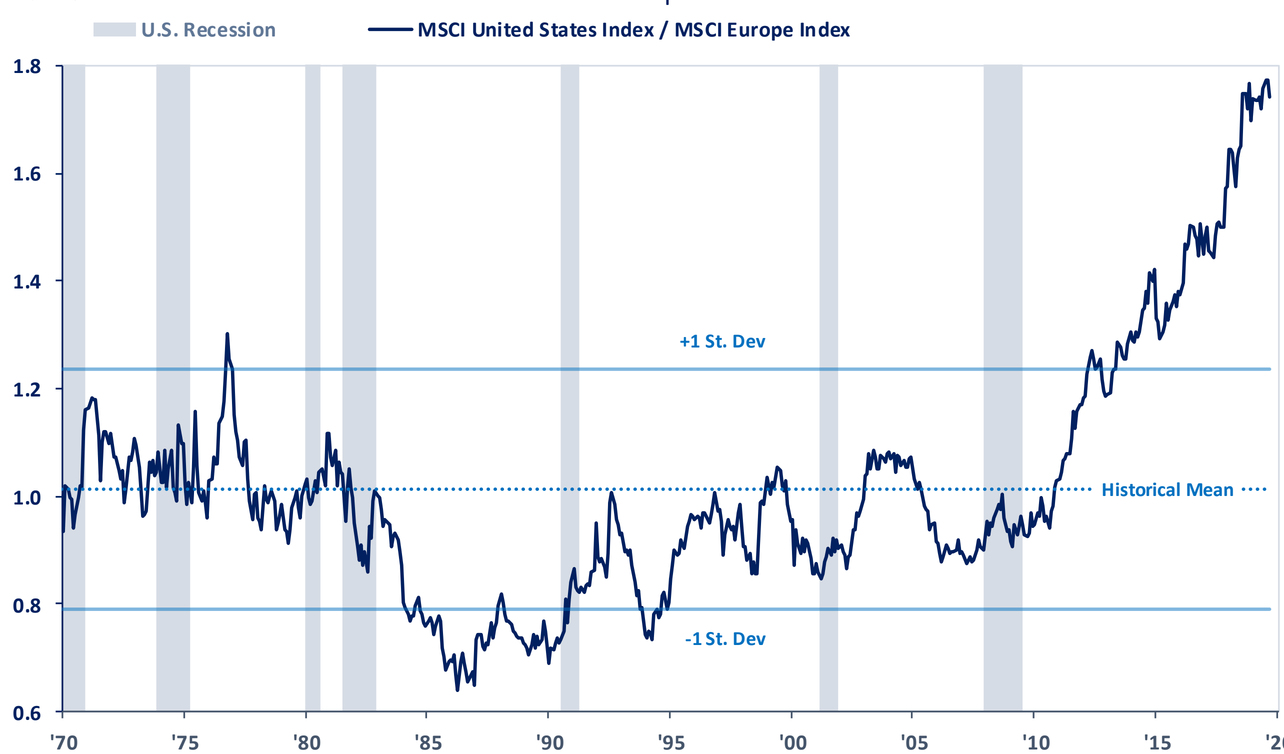


Chart 5: MSCI United States Index Relative to MSCI Europe Index



Headquarters: 47 Summit Ave, Summit, NJ | (908) 522-8822 ▪ **Rhode Island Office**: 3913 Main Road, Tiverton, RI | (917) 392-9268

Brett Haire: bhaire@braveasset.com ▪ **David Bunting**: dbunting@braveasset.com ▪ **Scott Morrison**: smorrison@braveasset.com

Chart 6: US Stock Market Relative to World Stock Market (Excluding US)

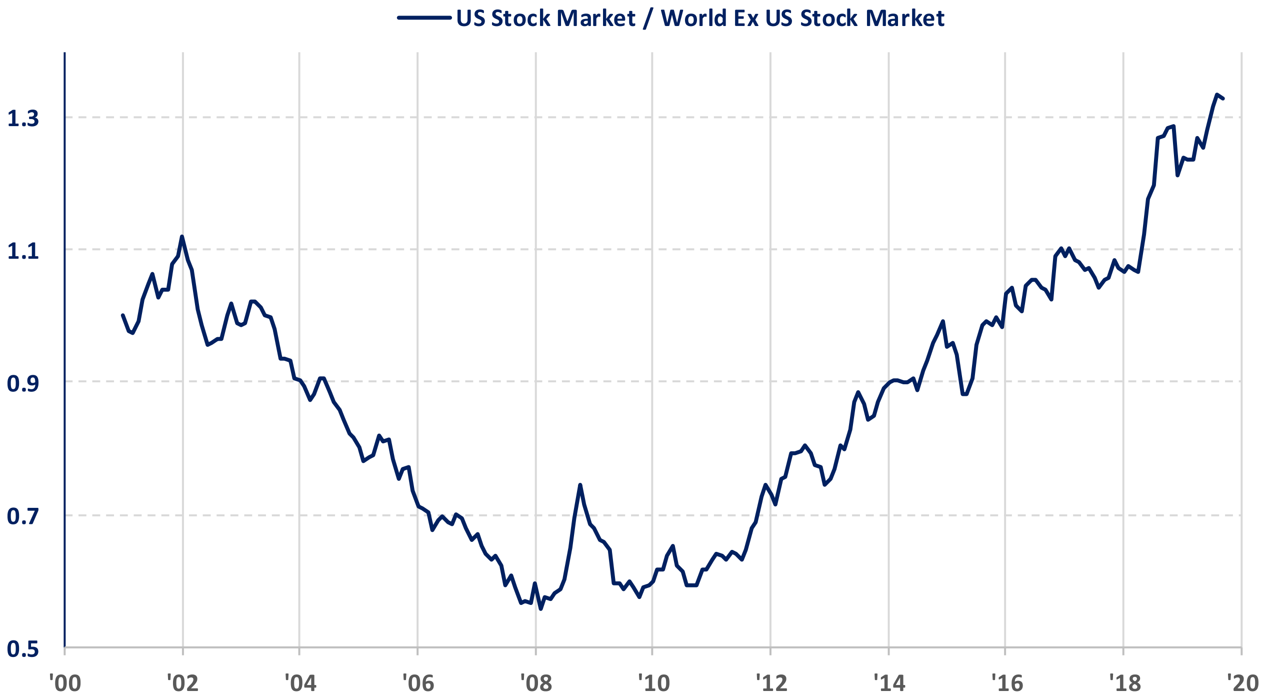


Chart 7: S&P 500 Index Relative to Gold Price

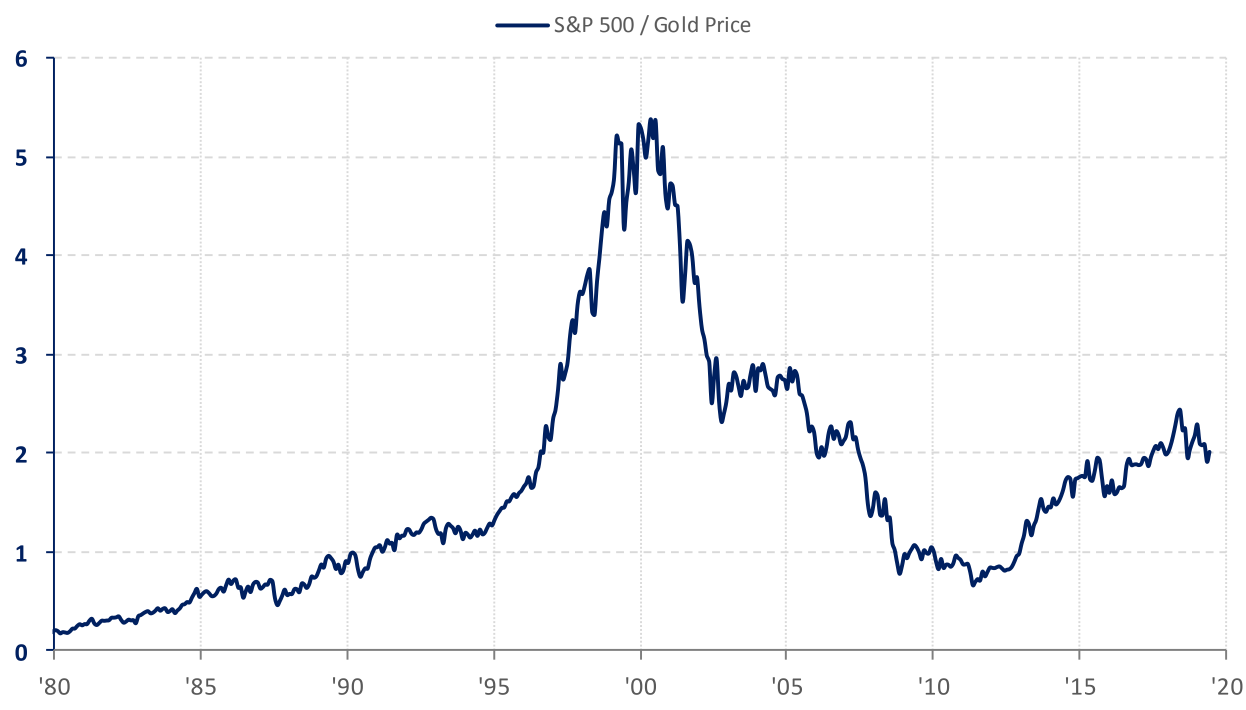


Chart 8: US Russell 1000 Value Index Relative to US Russell 1000 Growth Index

Portfolio Themes

Our current investing themes reflect our increased caution towards U.S. equities: maintain higher-than-typical cash levels, add duration in high-quality fixed income, hold some gold, and look to add non-U.S. stock exposure when we are ready to increase equity allocations.

We began raising cash levels at the margin beginning in early summer as we started to feel that the outlook for solid returns in the equity market was becoming less compelling and the likelihood of higher volatility in prices was increasing.

We have believed for over a year that the global interest rate outlook was benign and began adding duration via Treasuries and high-quality corporate bonds to reflect that. We have continued that trend in recent months viewing increased duration as also being a hedge against greater uncertainty in the equity market. Our average fixed income portfolio now has a bit longer duration than the bond market benchmarks.

We started adding gold to portfolios in October of last year as we believed that the Fed and the market had overshot on interest rates and were going to be forced to reverse course. Historically gold has performed well in times of falling real interest rates. It may also be a hedge against potential adverse political and geo-political developments. We are not "gold bugs" but believe that gold can play an important role in a portfolio at certain times. We believe now is one of those times.

U.S. stocks have significantly outperformed the rest of the world over the last ten years and we have already highlighted their current extreme valuation compared to global stocks. We believe that there will likely be a reversion to the mean in these valuation measures over the next cycle so will be looking to add non-U.S. stock exposure when we feel more constructive towards equities.

Yearend Considerations

As yearend approaches, there are some things that we want to bring to your attention.

1.) If you are over 70 ½ years old and, therefore, are required to take minimum distributions from your IRA account, you can use the distribution (up to $100,000 per year) to fund charitable giving if you do not need the money for living expenses. This allows you to satisfy the required minimum distribution while avoiding paying ordinary income tax on it.

2.) Be sure to make your annual gifts. You are allowed to give up to $15,000 per year to as many people as you would like without affecting your lifetime estate tax exemption. This can be a very effective estate planning tool if your estate will potentially be subject to estate taxes upon your passing.

3.) Consider using a portion of any gift to a young person in your life to establish a ROTH IRA for him/her. A ROTH can be a very powerful tool for retirement savings as the money grows tax free and is free of taxes when it is withdrawn in retirement. Many teenagers and young adults have earned income but are not in a position to save for retirement. Someone else can contribute for them up to $6,000 or the amount of earned income they have in the current year, whichever is lower.

4.) If you have not taken your 2019 IRA RMD yet we will be sending you forms for signature. Please return them to our office as soon as possible for processing.

5.) If you plan to make a chartable contribution of money or stock from one of your BAM accounts, please notify us prior to December 15 to ensure it is processed prior to December 31.

Please ask us or your tax professional if you have questions on these items.

Administrative Items

We continue to reinvest in Brave Asset to improve our client service efficiency and to ensure we are very well positioned to serve our clients over the coming decades. The following include a few new features and a reminder on a couple of other services that are available for you.

Tamarac portal: We recently rolled out a new client portal through Tamarac (our recently adopted new reporting and billing software program). You should have received instructions with your user ID and password. Please contact us if you need help setting up your portal.

The portal will allow you to:

1.) Access quarterly invoices and BAM-produced reports and letters
2.) Exchange account forms with us
3.) Store digital versions of important documents

Also, Pershing and Tamarac have just put in place an integration that will enable Pershing to automatically upload annual tax documents and monthly statements to your portal which we expect will make it easier for you and your tax professional to access essential documents.

DocuSign: We are now using DocuSign which permits the digital signing of account paperwork and other forms. We have significantly streamlined the opening of new accounts and other tasks. We must have current cell phone numbers and email addresses on file to use the software.

Consent forms: We will be sending you new account consent forms that we request you complete. They are essential to ensure we have accurate and current information on with whom we may share your account information (Power of Attorney, spouse, tax advisor, attorney, etc.).

Financial plans: We can work with you to build a financial plan with the help of a program called MoneyGuidePro. We have found this to be a very effective tool in helping clients get a better understanding of where they are on their path to financial security.

Everplan: Everplan is a very user-friendly and intuitive secure online system for storing personal information and financial data and documents. You can store information on subjects such as your home and pets, emergency contacts, and funeral preferences. You can also upload documents including insurance policies and estate plans. Once you have established a plan you can "deputize" specific people to have access to selected areas of it. For example, you could give access to certain areas to the executor of your estate and give access to other areas to your children. Please click on this link here to watch a video about Everplans.

As always, we welcome your comments and questions. Please don't hesitate to call, visit or email at any time.

Scott, Brett, & Dave

Headquarters: 47 Summit Ave, Summit, NJ | (908) 522-8822 ▪ **Rhode Island Office**: 3913 Main Road, Tiverton, RI | (917) 392-9268

Brett Haire: bhaire@braveasset.com ▪ **David Bunting**: dbunting@braveasset.com ▪ **Scott Morrison**: smorrison@braveasset.com