STRATEGIC *Insights*

Section 1: Market and Economy

This quarter, the Strategic Income Group Investment Committee met with the following companies: J.P. Morgan, Goldman Sachs, The Carlyle Group, Legg Mason, Cantor Fitzgerald, Variant, and Columbia Threadneedle.

In addition to meeting with these companies, the committee reviewed research from many other companies and outputs from our technologies to determine the most appropriate investments and advice for our clients.

Strategic Income Group Current Views (Q1 2020)

		Bearish	Slightly Bearish	Neutral	Slightly Bullish	Bullish
Capital Market Outlook				X		
		Bearish	Slightly Bearish	Neutral	Slightly Bullish	Bullish
Equities	U.S. Large Cap			X		
	U.S. Mid Cap		X			
	U.S. Small Cap	X				
	International		X			
	Emerging Markets		X ←			
Fixed Income	U.S. Government			X ←		
	U.S. Investment Grade Corporate			X		
	U.S. High Yield		X			
	International		X			
Alternatives						X
Cash			X			

Please Note: These are 12- to 18-month views from the published date of the applicable commentary. Arrows represent movement from Q4 2019.

Charles Schwab Announces the Purchase of TD Ameritrade

With the announcement of its acquisition of TD Ameritrade, Charles Schwab is set to become the third largest investment company with $5.1 trillion in client assets, only behind Vanguard and Fidelity at $5.7 trillion and $7.8 trillion, respectively. In addition, Schwab will have five times the number of Registered Investment Advisors than Fidelity that comes in second place.

This deal is expected to be completed in 2020.

While we do not know any details of the timing or future integrations, our team was very impressed with the technology suite of TD Ameritrade when we were considering them as a potential custodian. In all, we see this as a positive for our clients and we are excited about the future additions for our firm.

Capital Market Outlook

We had two changes in this quarter's capital market outlook. Emerging markets and U.S. Government dropped back one spot. We will get into the specifics of our overall views and rationale shortly, but the cliff-notes version is that we have seen a slowdown in business growth along with markets that are at all-time highs. With an election year upon us and signs of volatility returning to normal, we believe we could see returns across most investment opportunities in line with or slightly below their long-term average over the next 12 to 18 months.

Here are a few comments on our capital market outlook:

1. Unlike most investment firms or asset allocators, we do not believe in having to own everything just for the sake of owning everything. We can accomplish proper diversification with owning the investments that we favor more and rotating over time from investments that are moving out of favor and into those that are moving into favor.
2. The long-term performance of U.S. large cap and U.S. Government is obviously different. When we have both of them at neutral, we do not believe that they will earn the same return. We believe that over the next 12 to 18 months each of them is likely to have similar risk and return characteristics that they have had over the long run.

2020 Forecast = Blue Skies With Chance of Thunderstorm

If we were to ask our clients if they have an opinion on the elections and if they believe the elections would impact their investment portfolios, we would bet that close to 100% of them would say yes to each question. We are about to get into what we believe will be one of the most politically divisive and nasty election periods. Not only do both sides disagree with each other, they seem to hate each other.

A recent survey by the Pew Research Center shows that your political beliefs can cloud your understanding of what is really happening in the economy and the markets. As you would imagine, Republicans or those leaning Republican are extremely positive with the current economy. However, those that are Democrat or lean Democrat feel that the current economy is poor. We would imagine that if we were to do the same poll during Obama's tenure as President, we would see a similar result, however reversed.

As we will discuss later in this article, things are likely not as positive as some would like to believe nor as bad as others would like to believe.

As an investment committee, we say that "discipline is the key to success." In this case, discipline is not allowing your emotions to get in the way of making good financial planning and investment decisions. Let your investments follow the fundamentals of the economy to give the highest probability of achieving your long-term financial goals.

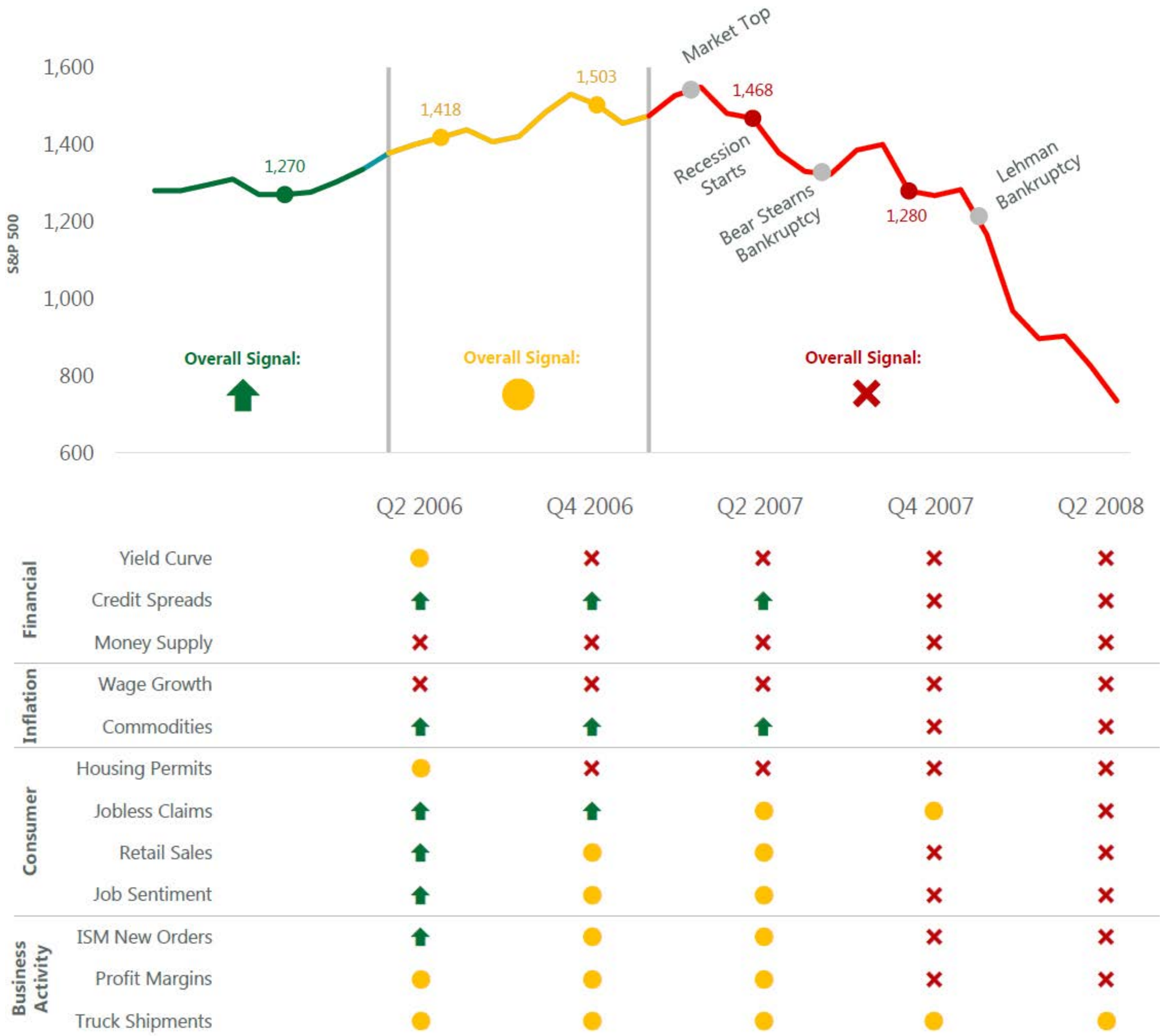
While 2019 might be remembered as a strong year for U.S. stock market performance, it should also be remembered as a year of economic slowdown. Economic slowdown still means growth — but growing at a slower rate than before. We have seen a gradual movement in this last year from our twelve leading economic indicators signaling

		Current	Third Quarter 2019	Second Quarter 2019
Financial	Yield Curve	✕	✕	✕
	Credit Spreads	⬆	⬆	⬆
	Money Supply	●	●	●
Inflation	Wage Growth	✕	●	●
	Commodities	●	✕	✕
Consumer	Housing Permits	⬆	⬆	⬆
	Jobless Claims	⬆	⬆	⬆
	Retail Sales	⬆	⬆	⬆
	Job Sentiment	⬆	⬆	●
Business Activity	ISM New Orders	✕	✕	●
	Profit Margins	●	●	⬆
	Truck Shipments	⬆	⬆	⬆
	Overall Signal	●	●	●

⬆ Expansion ● Caution ✕ Recession

expansion status to caution status. Many investors could get concerned that a recession is imminent. However, the consensus of our investment management firms we spoke to this quarter is that a recession will be avoided in 2020.

Let's take a second and remember that the economy and the market are two separate things and do not always move together. These leading economic indicators tell us where the economy is heading. In a normal economic cycle, we will see business activity and financials move from expansion status to caution status to recession status prior to the consumer. The consumer is the last to be impacted. You can see this as we look at the last great recession.



What does it mean when the leading indicators read "Caution"? You guessed it, you should be cautious on your investment decisions. Now is not the time to take on additional risk.

So where will the economy go from here? We know that the consumer is strong, not just in the U.S., but in Europe as well. In the U.S., the consumer makes up 70% of the economic activity. That means that the consumer still has a major impact on where we go as an economy. Not to mention that the Federal Reserve is still showing they are willing to lower rates and even expand its balance sheet in order to tap on the gas of the economy.

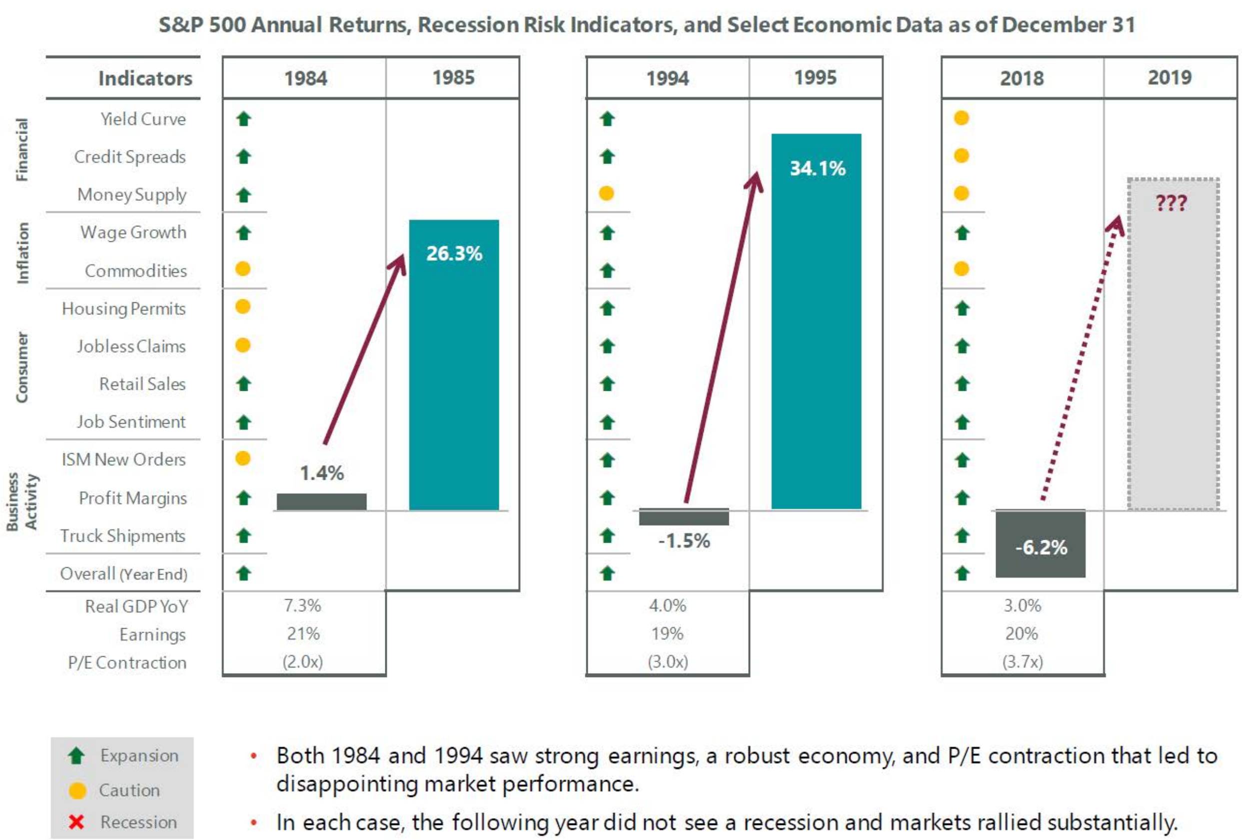
An "economic soft landing" means that the economy could transition from a late-cycle slowdown and back into economic expansion with a mild or even no recession at all. Whether we ultimately have a shallow recession or not in the next few years, an economic soft landing is our base case scenario and we believe that strong consumers along with the tools that the Federal Reserve still has in their toolbox will allow for this.

There are many people that get concerned with the thought of a recession and how wide the impact will be with job losses, people losing their homes, and other economic travesties. The most recent example of recession was the "Great Recession" of 2008, and even though it is over a decade removed, that is what most people think about when it comes to recession.

For those that are concerned with a major economic recession, it is not probable. While anything is possible, the risks are just not there. When you compare the financial risk in the economy, seven out of the nine areas that are measured have less risk now than the fourth quarter of 2006 — which many consider to be the height of the economy prior to the Great Recession. Many of these areas are dramatically lower, further diminishing the likelihood of a major correction. Look at the consumer as an example. Consumers have increased savings, paid off debt, and are fully employed with rising incomes. This allows for them to be more protected from the impacts of a recession.

What happens to investment valuations when the economy has experienced the longest expansion in U.S. history is that they get extended and are at highs. Not only do you see the stock market making new highs, companies are at some of their highest values. Those values have been warranted, however it does pose future risks if we are to see a sell-off.

This is where the economy and markets collide. Just because we could have a mild recession does not mean that we cannot see a larger sell-off in stocks. We all know that the market overshoots when things are good and sells off more than it should when things are bad. Knowing this still means that we need to prepare for those potential large swings.



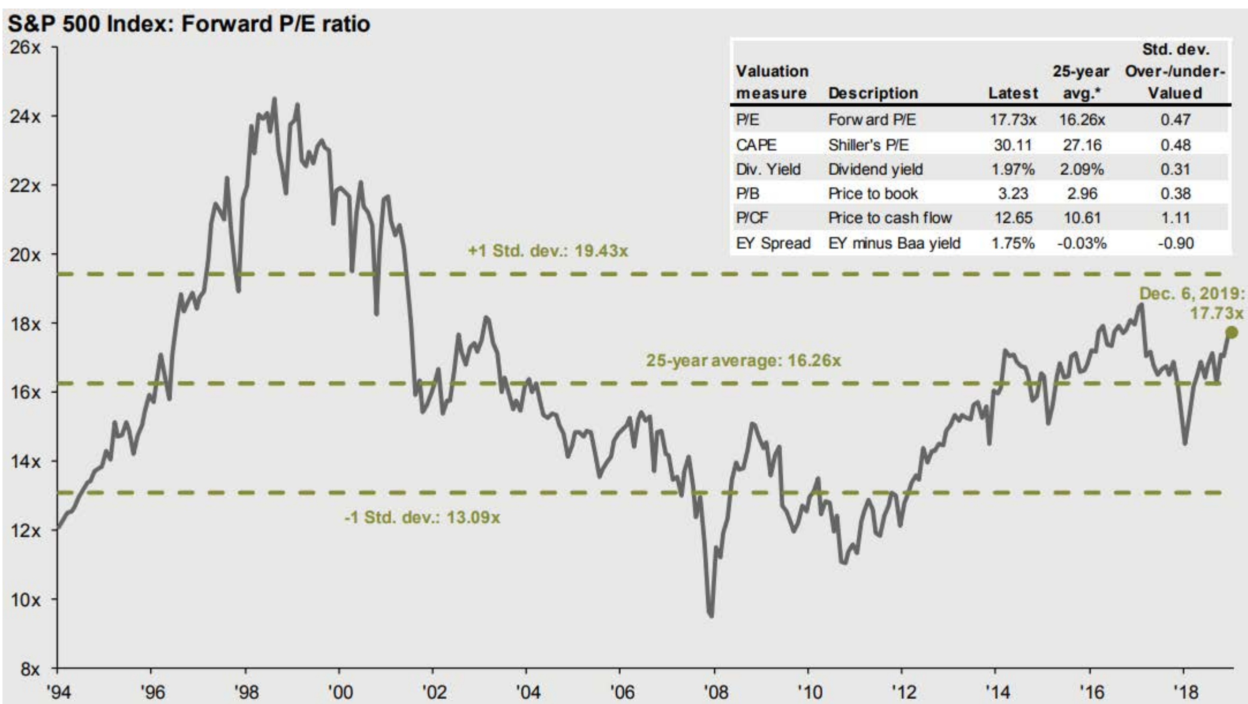
So, what will the return on the market be in 2020? In our research, the investment committee likes to find times in history that are similar to today.

To take you back to 2018, we had a drop in the stock market (most of that happening in the fourth quarter of the year). However, that year we actually had continued economic and business growth. That meant that stocks were cheaper at the end of the year than they were at the beginning of the year. Those events set up 2019 as a year that could see good returns which we have seen with the S&P 500 up 30%.

We have seen this happen two other years as well. 1984 and 1994 were similar to 2018 and they also saw a year following in 1985 and 1995 where stocks rebounded nicely and gave a nice positive return.

This begs the question, what happened in 1986 and 1996? In 1986, the S&P 500 was up 18.6% with dividends and in 1996 it was up 22.9%.

One thought further is that similar to 2020, 1996 was an election year with Bill Clinton as the incumbent president — and he won the election in a landslide vs. Bob Dole. Since WWII, the S&P 500 rose an average of 6.3% in price during the fourth year of the presidential cycle, advancing 78% of the time.



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	17.73x	16.26x	0.47
CAPE	Shiller's P/E	30.11	27.16	0.48
Div. Yield	Dividend yield	1.97%	2.09%	0.31
P/B	Price to book	3.23	2.96	0.38
P/CF	Price to cash flow	12.65	10.61	1.11
EY Spread	EY minus Baa yield	1.75%	-0.03%	-0.90

With the run-up in the market this year and with a slowdown of business growth, U.S. stock valuations as measured by the S&P 500 are now slightly overvalued compared with their long-term average over the last 25 years. This does not mean that we won't continue to see new highs. However, it is smart investor behavior to buy low and sell high.

Does this mean we should sell everything and wait? No.

Could valuations go higher? Yes.

Does it mean that we should pile on excess risk and chase last year's winners? No.

Remember that 2019 was a year with extremely low volatility and we believe that the next 18 to 24 months will be a return to normal volatility.

Any uncertainty creates the opportunity for volatility to return.

Equity market corrections are likely to return to normal which means there is likely to be more volatility than the last several years.

Here is what is normal:

- Three corrections per year greater than 5%
- One correction per year greater than 10%
- One correction every three years greater than 20%

Are you prepared for a 10% to 20% drop in the market?

Section 2: Practical Applications

So, what should investors do today? How do we protect the gains that we have seen without missing the opportunities of 2020?

CAPPED UPSIDE	**If the S&P 500 Index appreciates more than the cap level:** The Buffer Protect Strategy seeks to provide a total return that equals the predetermined cap level.
1X UPSIDE TO CAP	**If the S&P 500 Index appreciates, but less than the cap level:** The Buffer Protect Strategy seeks to provide a total return that increases by the percentage increase of the S&P 500 Index, up to the predetermined cap level.
10% BUFFER PROTECTION	**If the S&P 500 Index decreases by 10% or less:** The Buffer Protect Strategy seeks to not participate in losses.
BUFFERED DOWNSIDE	**If the S&P 500 Index decreases by more than 10%:** The Buffer Protect Strategy seeks to provide a total return that is 10% better than the price returns of the S&P 500 Index.

Markets just went up. Election year is upon us, we are expecting more volatility, however we could still see a good year in returns.

What is an investor to do?

Our goal is not to get you the best return possible, it is to give you the best risk-adjusted rate of return in order to give you the highest possible chance of achieving your financial goals and objectives.

One of the tools in our toolbox is the use of "buffer investments."

We have the ability to invest in the S&P 500 — the largest 500 companies in the U.S. This investment will give you one-for-one return on the upside, up to a cap. If the market goes down, your investment would be protected for the first 10% of downside over a one-year period.* This means that if the market went down by 8%, you would not lose any money.* If the market went down by 12%, you would lose 2%.*

If the cap on the upside was at 12% and the market went up 8%, you would go up by 8%.* However, if the market went up 15%, you would have been capped at up 12%.*

This particular "buffer" strategy is being deployed in all of our portfolios that are designed for the retirement phase (Preservation, Wealth, and Wealth+). We are not using these in our Accumulation and Accumulation+ portfolios for those not yet retired. Typically, in those accounts, they are adding to them vs. taking funds out.

Phase III
Strategic Income

One other feature in this investment is that the fund actually invests in 12-month buffer notes each month. This means that the buffer notes roll monthly and give us a good amount of protection and still allow us to capture on the upside.

This type of investment is not an evergreen core holding. It is a holding that could be in the portfolio for just a few months up to a few years. There will be a time, however, that this investment will no longer make sense and we would be better served with just owning the market.

In Closing

We continue to believe that the economy is showing signs of slowing with stretched valuations which leads us to believe that we could see volatility head back into the markets. This could give the opportunity for those in the Accumulating Wealth Phase to find some good entry points for new investments in 2020. In addition, we believe that those in the Strategic Income Phase should say thank you to the rise in the stock market in 2019 and remove some risk with the utilization of buffer note-type

*The downside protection and upside cap are for illustrative purposes only and do not represent a guaranteed return. To see the exact upside cap and downside protection, please refer to the prospectus.

investments. While we do not see a recession in 2020, history would suggest more volatility with the potential of another positive year of returns.

To dive deeper into your investments and how they impact your financial plan, please schedule a meeting with your CERTIFIED FINANCIAL PLANNER™ professional by calling (480) 466-7070.

Discipline is the key to success!

Interesting Facts

(Brought to you by Goldman Sachs, Market Pulse, Dec. 2019)

- "By 2025 Millennials will make up 75% of the US workforce and will account for 46% of the nation's income. Globally, we expect Millennials to earn more than $150 trillion in the next five years."
- "An American who drives less than ~6,000 miles per year would save money by ride-sharing rather than owning a car. As populations increasingly urbanize, we expect the pay-as-you-go market to expand four-fold by 2030."
- "Half of the world's population is still not connected to the internet. The race to establish low orbit constellations to connect the planet is taking off."
- "95% of economies are expected to grow in 2020, with the slowing countries comprising only 1% of global activity. We expect this sustained expansion to continue supporting risk assets globally."
- "AI voice assistants have achieved human speech recognition abilities at 95% accuracy, an important hurdle as 90% of all human communication still happens vocally. The number of virtual/voice digital assistants is projected to exceed the world population by 2021."
- "Global manufacturing contracted in 2019, but the impact has been manageable in countries where industry accounts for a smaller portion of GDP. In the US, markets may see an outsized impact as goods-producing firms account for 43% of the S&P 500, despite manufacturing contributing only 10% to GDP."
- "Despite near-record levels of policy uncertainty, the S&P 500 has experienced 26 new record highs in 2019 and only 7 price moves of more than 2%. The market has seen through headline noise."

Are You an Accredited Investor?

1. Did you have an annual income of $200,000 (or $300,000 for joint income) for the last two years and have the expectation of earning the same amount or higher in the future?

2. Do you have a net worth exceeding $1 million (excluding the value of your primary home)?

If you meet these criteria, you are considered to be an accredited investor. This allows you to have access to special investments not available to all investors. The Strategic Income Group Investment Committee has researched and screened out specific opportunities that might be right for you. Please contact your advisor to learn more.

Did You Know?

Strategic Income Group has an official financial planning process called "The Three Phases of Wealth" designed to help you wherever you're at in your financial journey.

Visit https://strategicincomegroup.com/start/ to learn and set some financial goals!

Questions?

If you have any questions whatsoever regarding our investment manager meetings or any of the notes, give us a phone call or stop by our office:

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Strategic Income Group Investment Committee

Chad Manberg, CFP®, Chairman

Michael Gauthier, CFP®, Vice-Chairman (past Chairman 2013–2018)

Bob Stamm, CFP®, Member

Laurie Simons, CFP®, Member

Martha Cortez, FPQP™, Member

What Are Investment Manager Meetings?

At Strategic Income Group, we believe in reviewing detailed investment research. Every 90 days we set aside a week during which around 7 to 10 investment managers give us recommendations on our current portfolios as well as share their firms' current views on the market and economy. This recap is our commentary on the most recent meetings.

My Notes and To-Dos