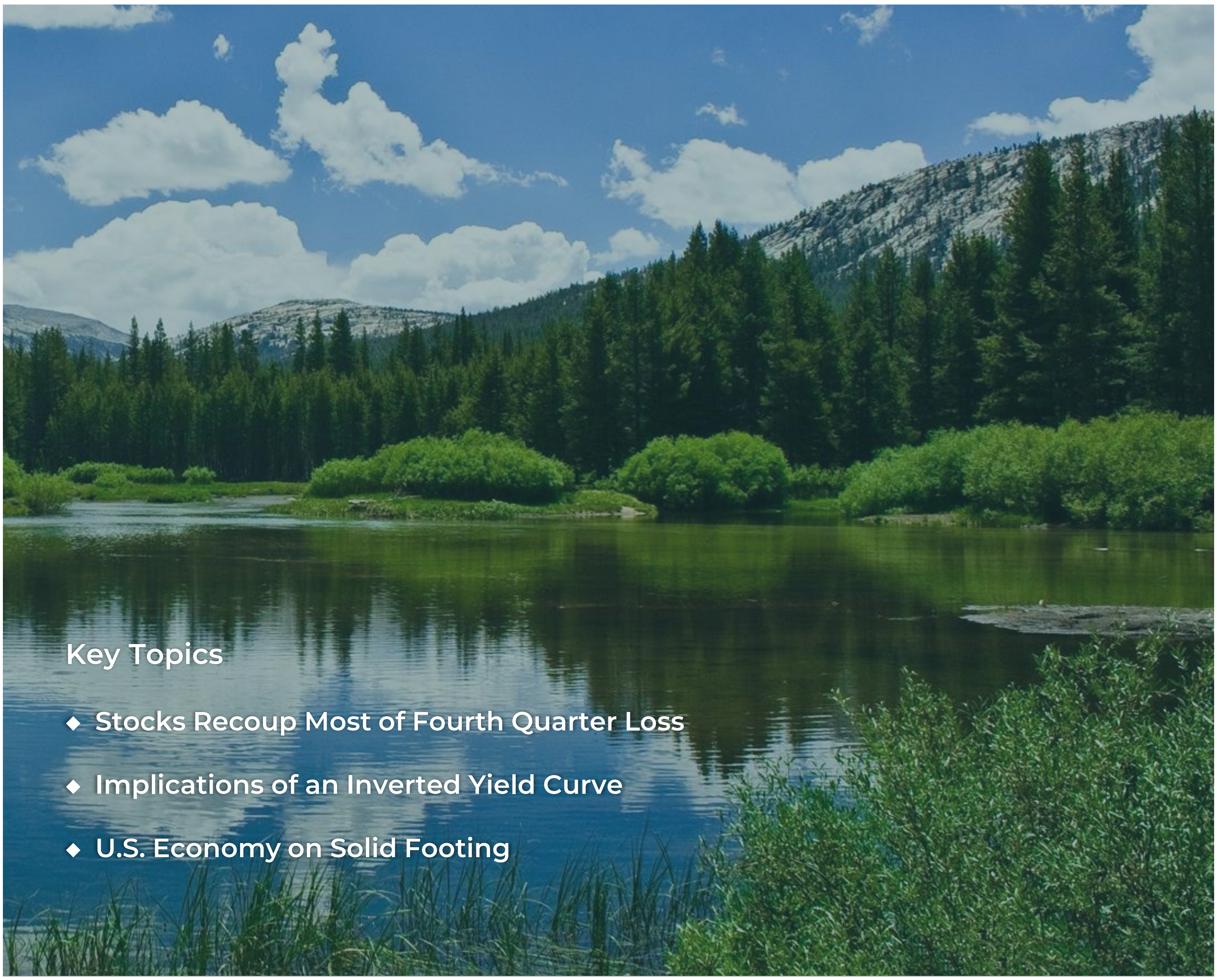
BlackDiamond Financial

INVESTMENT INSIGHTS

FIRST QUARTER 2019



Key Topics

- Stocks Recoup Most of Fourth Quarter Loss
- Implications of an Inverted Yield Curve
- U.S. Economy on Solid Footing

Stocks Recoup Most of Fourth Quarter Loss

Dovish comments from the Federal Reserve and optimism that a trade deal with China is on the horizon propelled U.S. stocks to significant gains in the first quarter. The Fed helped assuage one of investors' biggest fears, that its policies may cause a recession, by announcing its plan to halt interest rate hikes for the remainder of 2019. This sharp turnaround from a more aggressive posture helped the S&P 500 rise by 13.7%. Small company stocks also rebounded, posting a 14.6% gain in the quarter.

Investors will closely watch first quarter earnings to gauge 2019 earnings estimates. Long-term, the vast majority of stock market appreciation is due to earnings growth. Expectations are for slightly lower earnings this quarter and positive growth for the remaining three quarters of 2019. The S&P 500 ended the quarter with a reasonable forward price-to-earnings multiple of 16.8x, which is a small premium to the 25-year average of 15.1x. Below average long-term interest rates provide some justification for this small valuation premium.

Ten-year government bond yields declined to 2.4% this quarter causing the Treasury yield curve between 3-month and 10-year Treasuries to invert for the first time since 2007. An inverted yield curve means that investors can earn more interest by investing in 3-month Treasuries than with 10-year Treasuries. Declining yields (yield and price are inversely related) drove bond returns higher to a quarterly gain of 2.9%. In addition, lower interest costs made real estate stocks more attractive and helped the asset class to a 17.5% gain.

Comparative Returns

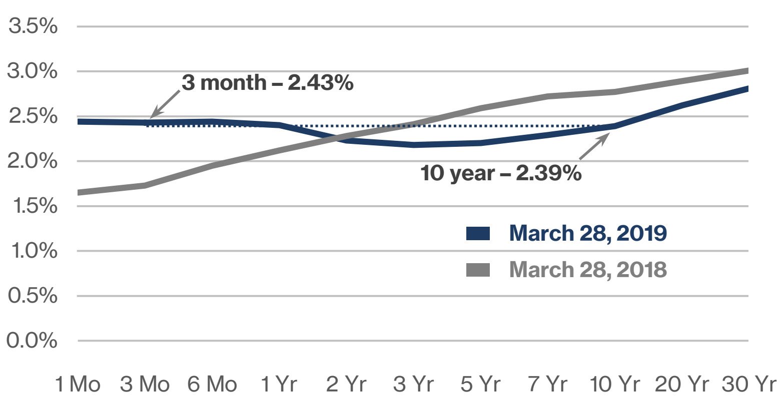
		Annualized Performance			
	Q1 2019	**1 Year**	**3 Years**	**5 Years**	**10 Years**
Large Cap U.S. Stocks(1)	13.7%	9.5%	13.5%	10.9%	15.9%
Small Cap U.S. Stocks(2)	14.6%	2.0%	13.1%	7.5%	15.2%
International Stocks(3)	10.3%	-4.2%	8.1%	2.6%	8.9%
Real Estate(4)	17.5%	20.0%	10.7%	6.5%	12.0%
U.S. Bonds(5)	2.9%	4.5%	2.0%	2.7%	3.8%

(1) Measured by the S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy.
(2) Measured by the Russell 2000, which includes the 2000 smaller stocks of the Russell 3000 index.
(3) Measured by the MSCI ACWI ex-U.S. index, which includes large and mid-capitalization stocks from developed and emerging international markets.
(4) Measured by the MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks.
(5) Measured by the Bloomberg Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market.

Implications of an Inverted Yield Curve

On March 22, the yield for 10-year Treasuries declined below 3-month Treasuries creating an inverted yield curve. Normally, the yield curve is upward sloping and has only inverted eight times in the last 50 years. The yield curve inversion unnerved some investors as every recession since the 1960's has been preceded by an inverted yield curve. While the inverted yield curve is an interesting development, especially for fixed income investors, it does not necessarily mean a recession is imminent and stocks are destined to fall.

U.S. Treasury Yield Curve Inverts(1)



As globalization grows, foreign governments and economies increasingly impact U.S. interest rates. Extremely low rates in Japan and Europe (Germany's 10-year bond recently had a negative yield) has helped push longer-term U.S. rates lower. In addition, after consistently raising short-term rates over the last two years, the Federal Reserve's next move could be to lower short-term rates and cause the yield curve to once again be upward sloping. Although an inverted yield curve has historically coincided with a weaker stock market, the sample size of these occurrences is small, and the curve could soon normalize without recessionary forces increasing.

U.S. Economy on Solid Footing

The U.S. economy may still have a healthy runway for growth and does not appear to be headed for an imminent near-term recession. Unlike at the start of prior recessions, current economic indicators continue to remain largely positive (see below). In fact, at the start of each of the last six recessions, many economic indicators were negative. Currently, most economic indicators are positive or neutral and point toward a moderately expanding economy.

Recessions are an inevitable part of every economy's business cycle and should not be feared. Since 1945, the U.S. has experienced 12 recessions that have lasted an average of 11 months. In each instance, the U.S. emerged from the recession and reached new all-time highs in both economic production and stock market value.

Economic Indicators Remain Stable(2)

Start of Recession	Yields	Inflation	Jobs	Credit	Housing
Nov-73	↓	↓	↓	↓	↓
Jan-80	↓	↓	↓	↓	↓
Jul-81	↓	↑	↑	↓	↓
Jul-90	↓	↓	↓	↓	↓
Mar-01	↓	↓	↓	↓	↔
Dec-07	↓	↓	↔	↓	↓
Present	↑	↔	↑	↑	↔

Key: ↓ Recessionary ↑ Expansionary ↔ Neutral

(1) U.S. Treasury as of March 28, 2019.
(2) Standard & Poor's, Federal Reserve, BLS, National Statistical Agencies, NBER, Census Bureau, Haver Analytics®, Credit Suisse. As of March 31, 2019.

ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment advisor with a unique focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, returns optimized, and tax-efficient. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is well-below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

CONTACT US

Baltimore

305 W Pennsylvania Ave.
Towson, MD 21204

Bend

780 NW York Drive, Suite 208
Bend, OR 97703

New York City

175 Varick St., Suite 349
New York, NY 10014