Quarterly Client Newsletter

4th QUARTER 2018 REFLECTION

BY ALEC BETHURUM
SR. PORTFOLIO MANAGER

The fourth quarter was a difficult period for nearly all traditional asset classes. December 2018 was notable for being the worst final month to a year, for domestic equities, since the early 1930's. Only a strong final week kept many broad indexes from closing the year in a what pundits define as a "bear market", a market down 20% or more from its high.

International equities were not spared. Emerging markets, led by weakness in China, were down in the low double digits. Developed markets, in Europe, fared even worse. Suffering from uncertainty regarding Brexit, immigration and interest rates, European markets began their dip early in the year and never rallied. By year end, nearly every major index showed a loss greater than 15%.

Even fixed income, the traditional offset to weak equity markets had a difficult year. With the Federal Reserve focused on raising rates, to offset inflation and contain asset bubbles, fixed income markets were subject to wide trading ranges and negative price action. The broad-based Barclay's Aggregate, an index of fixed income investments, closed the year down over 2.5%, on a price basis. That final decline included a furious rally in the last month of the year which saw it recover from being down nearly 5%. More speculative bond markets, such as the high yield market, saw even deeper declines with many indexes down over 6% on a price basis.

That's the bad news. What's the good news?

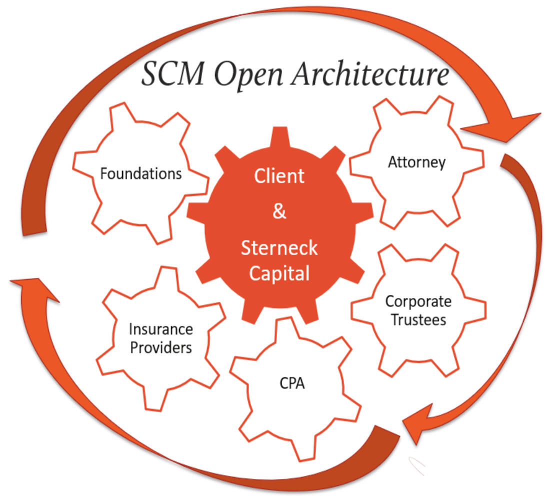
The majority of Sterneck Capital households performed better than the equity markets in the fourth quarter and particularly in December. The last month of the year was an excellent period to demonstrate the importance of diversification both within an asset class and in the number of asset classes being utilized. As an example, the broadly owned AQR Market Neutral Fund, which had been having a difficult time in the face of growth outperforming value, proved its diversification value in December. In a month when the S&P500 closed down 10% and was down 16% at one point, the Market Neutral Fund was up 3.7%.

Other alternative asset classes, which we have been educating clients on and allocating to for some time, also proved their value in 2018. These investments demonstrated return streams uncorrelated to economic cycles and interest rates. We also continue to research and deploy new investment opportunities with the goal of expanding the number of uncorrelated investments we deploy in client accounts. This push is part of our continued effort to construct portfolios with a tighter range of potential annual outcomes, or, to use investment speak, lower volatility. This "lower volatility" should provide those clients who are retired or about to retire with greater clarity on their annual spendable income and make the financial planning process more meaningful. We encourage clients who have made recent decisions regarding their retirement time line to reach out to us so that we can ensure the right plan is in place.

As we look forward to 2019 we anticipate there might be some trepidation among investors. We tried to address much of this in our letter sent to clients on December 24th. Anyone who has not read that commentary or did not receive it we encourage you to reach out. The main point of that message is that we cannot accurately determine how deep or over what time period this correction may last. However, we can, with strong conviction, say that it will not last forever. Further, as evidenced by performance in December, our accounts with shorter time horizons are subjected to reduced volatility by diversification and multi asset class allocation. For accounts with longer time horizons this downdraft is a welcome opportunity to add money to equity markets at more attractive valuations, which generally results in higher long-term returns.

As always, we welcome you to reach out with any questions or concerns. We also invite you to join us on January 22nd at 10 AM CST for our quarterly conference call.

SCM PARTNERING WITH YOU, FOR YOU



At Sterneck Capital Management, achieving your goals is our only goal.

To do so, we adhere to The Fiduciary Standard to assure that your interests come first. In order to optimize outcomes and strive to exceed your expectations, the core of our service platform is our team-based, client support approach. That starts with our own seasoned staff, all of whom are committed to excellence and continuous improvement.

Our collective experience brings over a century of living, learning, investing and client service in the financial services and insurance arenas to the table on your behalf. That said, we are far from assuming we have all the answers during these dynamic times. To underscore our belief that informed and tailored decisions are the best ones we work, by design, with an open architecture model. This allows us to seamlessly work with the other professionals in your life including the tax and accounting, trust and estate, insurance, business advisory, legal and other planning advisors that have earned your trust.

If you need a tested referral in any of these areas or others, including philanthropic giving, financial education and risk management, we are privileged to have built a strong team of external advisors who's cutting edge and long-term experience are available to you and complement our expertise. We would be happy to make these experts, along with other members of our national networks, available to you and interface with them on your behalf. Please note, that to assure that we are clearly serving as your partner and advocate, we do not receive any remunerations for referrals. Delivering on your well-funded future takes ongoing planning now. We are here to help.

SHARED INSIGHTS & INVESTOR BEHAVIOR
BY FRANK STERNECK, CO-FOUNDER & CHIEF INVESTMENT OFFICER

In reflecting on 2018, the word that stands out is volatility. After several years of reduced volatility across several asset classes, we experienced the return of more historic levels of market volatility. As we've discussed in past letters, volatility can be friend or foe, depending on one's time horizon and ability to tolerate and potentially take advantage of market opportunities. As Alec correctly points out, as one approaches and begins retirement, volatility becomes more relevant. It is for that reason, we continue to pursue strategies that diversify portfolio risk and narrow the range of potential returns.

As we begin 2019, I'm pleased to announce the addition of Austin Drake to the Sterneck Capital team. Austin is a graduate of KU and interned for us several years ago before moving to California where he worked as an Equity Research Associate. Austin brings a set of skills and talents to the firm that will enhance our ability to perform and serve our clients. I hope many of you have the opportunity to personally meet Austin this year.

On behalf of the entire Sterneck Capital team, I wish you a healthy and prosperous year.