Dear Investor,

Enclosed is our annual newsletter, THE BIG PICTURE 2019. In it we discuss our outlook for the year and some very special long term considerations. We reemphasize the long term potential of the market, as well as some near term speed bumps that could disable the vehicle if we are not prepared for these surprise encounters.

Some of our clients & readers are in the accumulation phase. Others are more at the preservation point. Still others are in the distribution stage, now consuming that long deferred accumulated asset base. Our average life expectancy isn't what it used to be (much greater now), *and we have to plan accordingly.* As I touch base throughout the year with many of our long term clients, we sometimes discuss dancing, grands, and yes, even knee caps. We all seem a little more hesitant to touch on politics, being so often surprised how our friends (and even family members) could possibly think the way they do. We often ask ourselves…"Don't they get it?"...and find lots of surprises in some of the answers, both ways, *for sure*.

At a recent Oxford Club conference, I suggested **5** books as important reads *for the times*: #1) was the "*long shelf life*" book our numerous newsletter writer friends (Maybury, Skousen, Green, Prechter, etc) helped us co-author about a decade ago, THE EVERGREEN PORTFOLIO. The 3 chapters my 45 year long partner Ron Miller and I contributed, describe in much detail the process we have used when the markets hit a bear market or an air pocket, such as we just experienced in *October of 2018*. We also used this process to defend accumulated client capital in *October 2008* through March of 2009, as well as in 2000-2002. Many of us can still remember where we were in October 1987 (well prepared, as we were before 9/11).

In our 47 year investment history, Ron & I have seen the Dow Industrials move from 1000 to over 25,000. Easy math, $100,000 now worth $2,500,000 (over 25x your money) plus dividends of over 2% compounding for 45 years. But shortly after we started in the investment business in 1971, the market dropped almost in half, close to 550 on the Dow in 1974. From that lower point, it computes to more than twice (50 times) the return, & the dividends would have been closer to 4% from *that* start time. When we're in the investment *accumulation* stage, great…we get more shares for the buck. We *should* be happy. But we usually fear the worst at those times, and sometimes act accordingly…selling what we have remaining before we lose more.

The "preservation and distribution" stage can prove to be even more problematic. We don't have the time to go through accumulation again, and we may need the distribution. With the market having recently reached its all time high, I would like to use this year's letter to discuss what we can do to better hedge our downside (from the need to start all over again) while we wait out the next possible 25 or 50 times return plus 2-4% dividends on the accumulation, either for us, our heirs, and/or as a legacy. The business equity listed in the liquid stock market has beaten any other asset category, even with all its big bumps and surprises. And I'm sure we all get that, especially when we have a perspective spanning 45 years or more.

But how can we smooth out and better preserve our resources in these times of Chinese competitive intentions, grid/cyber vulnerability, domestic political tensions, and the wide spectrum of possible scenarios of the financial outcome if certain political views prevail. I get all this. Hence this important letter, THE BIG PICTURE FOR 2019.

Let's get started.
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THE BIG PICTURE
2019

In January of 2016, many of the world's largest money managers and globalist leaders met in Davos, Switzerland for their annual gathering for presenting and exchanging ideas. Predominantly bearish in tone at the meeting, most of the participants felt the world had run out of financial rabbits in the hat, and that socialism and the organizing principles of writer/speaker Saul Alinsky were being practiced by many of the global leaders. The president of the US at the time Obama) and the candidate in waiting (Clinton) were students and adherents of many of Alinsky's persuasive suggestive actions & socialist remedies.

The global economy recovery seemed to be wimping out in 2016, even with negative interest rates and massive "quantitative easing" for many of the developed economies. Governments without money in the bank were "writing checks" to repurchase outstanding bonds & to keep the economies liquid for lending & spending stimulus.

With the surprising 2016 election results of a business man pledging corporate tax reductions and less regulation for business, the Davos doomsayers, who had bet on the continued downside of the global economy and stock markets, *quickly* reversed course as soon as election results were known (started covering their US stock market short positions). In the following year, 2017, the market soon priced in a 25% increase in corporate profits propelled by that corporate tax cut. The market adjusted upward by about the same amount of the tax cut. A feeling of general optimism prevailed. Labor became scarce & wages rose, and almost half of the S&P corporations authorized the repurchase (buy back) of their own stock, often with low interest rates loans, which helped put a floor on their own stock declines. The US market had the largest string of months without a 5% correction in 50 years. (source Raymond James analyst, Andrew Adams.

In 2018, aggressive negotiations of trade tariffs, an election result that promised ongoing congressional investigations and possibly even impeachment proceedings became the talk of the land. Families were counseled not to discuss politics at the family Thanksgiving gatherings, and to limit alcohol consumption as well. Remembering personal events of past Thanksgivings and family events were recommended topics.

In 2019, many money managers at Davos will most likely be discussing the dominating market forces of programmed computers, who are rendering their previously successful investment strategies less successful. The high frequency trading (HFT) computers are programmed to beat the smartest chess player. And hedge funds in general have struggled to achieve 3% annual returns over the last decade vs the S&P at over 4x that annually for those 10 years (source Skybridge Capital).

Stanley Drukenmiller (one of the larger hedge fund managers) says no longer can his market judgment & investment skills make the high returns he was accustomed to. One market sector is quickly drained of its previous profit while another begins a surprising surge. The sectors & overall market seem to take the staircase up, but the elevator back down. What is gained over months can be quickly lost *in a New York minute (i.e.* in 2018, just in the month of October).

Under new leadership, the Federal Reserve began a gradual reversing of a 0% interest policy to a projected target of approximately 3%, at a pace to be dependent on the economic data as interest rates became more "normalized". As the rates went up, *bond prices declined, along with interest sensitive and high dividend stocks. 2017 & 2018* were very bifurcated stock market years, one being led on the upside by new technology & disruptive innovation for the future. Most of the rest of the global market aggregate averages continue to sink in unison, with stocks, bonds, and even cash remaining at 0% interest, after you sometimes pay the bank on your deposits.

NOT YOUR GRANDDADDY'S STOCK MARKET

Nor your daddy's, nor yours nor mine. Today daily trading is dominated by programmed computers. The President's Working Group on Financial Markets (the Plunge Protection Team) unpredictably can step in on bad days of illiquidity (flash crashes). News travels at the speed of sound or faster. Now cyber attacks are also a part of the investment landscape.

At a recent Oxford Club conference, I suggested 5 important books to help understand where we are now, what new factors ought to be considered, where we might be headed, and what we can do about it, investment wise. Your 2019 suggested reading assignment, should you wish to accept, follows:

5) *The 100 Year Marathon.* Michael Pillsbury, about the long term plan by China to dominate the world. Most of that 100 years is now behind them. The "trojan horse" is fast approaching the target date. Over 300,000 students are currently enrolled in U.S. schools soaking up whatever we know.

4) *The Perfect Weapon*, David Sanger, about the next war lasting less than 30 minutes. Micro chips have been placed in our defense system that can take control of US military equipment and the U.S. grid/cyber system.

3) *Rules for Conservatives… in response to Rules for Change for Radicals,* Michael Martin, a debate on the rules articulated by Saul Alinsky. A video discussion (my wife prefers this version) of the debate is "Wolf in Sheep's Clothing" by Jim Martin (you get to decide "where's the wolf"). My long time partner Ron Miller has become a close observer on Alinsky's rules & watches them being globally implemented. Good to know what these rules are.

2) *Principles of Life and Work,* Ray Dalio, about his method of highly successful investment management and his mandatory rule for getting rid of the **PES** (**P**ride, **E**go, **S**tubbornness) when it comes to personal investing. We need to forget our prejudices, clean the slate and restart, difficult as it may be. I gave my younger partner, Josh Newman, this book for 2017 Christmas. He reread it several times so far and continually reviews his highlights. Dalio's rules when implemented have been beneficial to his investment practices.

1*) The Evergreen Portfolio*, Martin Truax and Ron Miller (and other select co-authors including Richard Maybury, Alex Green, Mark Skousen, Robert Prechter) includes the strategy we employ to potentially lessen the downside of market volatility. An "*Excerpt*" version is available to readers of this letter at no cost by contacting our office.

QE to QT

Meanwhile, the Federal Reserve began to raise interest rates about 8 times over almost the same number of quarters, from 0% to over 2% now. They also have put away their check book to buy bonds off the market (called "quantitative easing", or QE). QE had put billions into the economy with the repurchase of government bonds. That cash from the bond proceeds then compounds by a factor of up to perhaps 10 fold by the time it can work its way through the banking system in the form of loans to individuals & businesses.

*Now the Fed has reversed this **QE** process* by about $600 billion, and perhaps 10 times that ($6 trillion) of loans will not be made or renewed. *This is big*. It's called "*quantitative tightening*", or ***QT.*** A lot of those needed funds, when that loan money is no longer available, will come out of the stock market instead. Companies & homeowners with debt & new or floating rate mortgages will be paying at least twice the interest expense rate of just 2 years ago. It can put a liquidity & profit squeeze on companies that borrowed to buy stock back (about half the listed companies). And the new tax law no longer allows the deduction of all the interest. These factors can quickly drop credit scores and ratings. When companies get downgraded below investment grade, *institutions usually must sell these bonds quickly*. We'll keep a close eye on the bond market. It could be the canary in the financial market.

SEVEN TO NINE MORE GOOD YEARS

Says Raymond James chief market strategist, Jeff Saut. The bearish forces after the 14% market pull back from the February 2018 peak to the October 29th low, put a lot of focus on the potential problems. The majority (75%) of investors were no longer bullish by Thanksgiving Day. That's a significant "contrary indicator", *a good time to go against the crowds*. The "boo bears" see most of the global economy in trouble (Argentina, Brazil, Italy, Spain, China, Turkey, India emerging markets). The U.S. corporate tax rate cut boosted the market, and now the new Congress wants to reverse that, if it can.

But Jeff feels this ongoing bull market began only when it got back to even in 2013 from before the financial crisis of '08 & peak in '07. With a typical bull market lasting 14 years, he sees 2027 as the possible top out (right before the election of 2028). Saut compares this secular bull market to the 1982-2000 period. Up until that time, all the market did was recover ground lost in the 1974 financial crisis. Super chartist Martin Armstrong's forecast gives us an extension til 2032 which includes one more election cycle. Wonder what that might imply?

The reading list will tell us a lot of important "need to know". Perhaps I should add the *Fourth Turning* to the 2019 list. It tells how history repeats.

Politics may cause the market to gyrate, but fed policy, availability of credit, economic growth, and EPS direction can cause the market to trend over time, says Saut. Some of these policies are positive for equities for right now. Others, not so positive.

His highly competent protégé, technical analyst Andrew Adams, makes some very interesting observations that continue on our theme of "this market is not ours", especially in the intermediate term. Andrew observes, for any of us who like *value and buying good assets cheap*, we need a lot more patience. The following five points might provide one of the most significant summaries of what the market is doing today:

1*)Since 2006*, value stocks have significantly underperformed growth stocks. The Buffets and many other long time liquid equity market investors, favor value stocks. These are stocks that trade below a calculated intrinsic worth. *Now here it is!*

There is a built-in bias from a momentum factor at work that doesn't exactly help stocks that are undervalued. As money flows into investment products such as ETF's & active funds that "buy the market" or "specific sectors", value is thrown out the window. Instead, higher growth stocks that bid up the market (i.e. "faang" stocks), are increasingly bid up to even higher prices and market cap. These growth stocks become even larger percentage holdings within most of these funds and ETF's. Stocks that fall in price and market cap become even smaller holdings. This built-in momentum factor doesn't help value stock participation. Andrew believes that as passive and index investing proliferate, value investor patience will be challenged to contend with this new dynamic.

2*)The ability to trade so quickly and cheaply* has helped cut down on the holding times. It has also prompted investors (and computers that are programmed to "listen" to the news and instantly react in cyber time) to chase quarterly earnings comparisons vs their estimates. This further skews the market toward momentum and growth stocks. Such *becomes a self feeding cycle…*until it isn't.

3*)Since '06, the periods when value has out performed growth* have occurred after meaningful sell offs. We started to see value do relatively better again in October 2018.

4)*Consequently, some value and income stock investors* have begun to gravitate toward a "barbell" approach, employing a combination of both growth & value stocks so as to get more portfolio "lift". These growth & momentum portfolios can be volatile during market pull backs, but nothing is immune to downside volatility when there is a scramble for liquidity.

Mostly the highest quality bonds get the sales proceeds.

Therefore, more conservative investors today are allocating a portion of their funds for "stability", a portion for value/income if income is needed, and keeping the remainder in growth stocks to get more potential gains. As technology & new disruptive innovation companies continue to increase in market value & capitalization, it becomes harder for companies in more traditional value sectors to keep up. Bottom line, it might take a more recessionary environment for value stocks to take their turn at outperformance.

Benjamin Graham's book, *The Intelligent Investor*, Warren Buffet has said is the best book ever written on investing. The operative quote from that book: "The essence of portfolio management is the management of risks, not the management of returns". He concluded that thought by saying, "All good portfolio management begins and ends with this premise. If you manage the downside in a portfolio, and avoid the big loss, the upside takes care of itself."

*This is why investors need a sound approach to managing risk. R*ebalancing portfolios, trimming investment positions from time to time, hedging the downside & raising cash when appropriate are all part of our Investment Planning & Management (IPMG) process.

5*) In the meantime, if we are using your growth portfolio to produce income,* it can be unnerving at times when as in 2018 the S&P climbed almost 11% thru the first 9 months of the year. If you grabbed off half of that 5½ % as "income", and then you watched the as the market gave back that 11% just in the next one month alone (October), you already spent the money and you're now down 5%.

6*) In the "barbell" approach*, the strategy is to combine the 3 objectives of investing: stability, income & growth. We have several different strategies for each objective (9 total) that we (IPMG) employ for that reason.

There are short term "market moving" political considerations, and computers that are programmed to beat the best chess player. These combine to try to shake us loose of our stocks during sell offs. For *longer term considerations*. I believe we will all be more cognizant of the important Big Picture factors at work when we finish the suggested 2019 reading.

7*) So we should perhaps rethink* with the new investment environment. Perhaps our tolerance for downside is lessening. Thus, we might look for the right barbell replacement to maintain our financial balance.

LET'S SUMMARIZE

Money is being withdrawn from the economy (from Fed QE to QT). The new Congressional House says they want to retract the corporate tax cuts. President Trump insists we shouldn't do this. The motor boat throttle has been pulled back to neutral, and is now inching into reverse. The Captain is shouting, "Keep it moving forward. Don't lose our momentum". The *IMF "Global Stability Report*" of 4/17 states that if we do lose our momentum (go back toward recession), 20-22% of US corporate bonds will default. *That's huge.* Meanwhile, o*ne sector after another of the US equity market deteriorated* in 2018 while the indices were supported to give the illusion the market is still great, says our good friend, Bert Dohman of the insightful Wellington Letter.

SUGGESTIONS:

1)Remember the "barbell" approach (that's why we maintain 9 investment strategies).

2)Remember FPM (our Flexible Portfolio Method) that follows the market and can hedge to the downside as the market rolls over.

3) Be prehedged with a portion of your portfolio, that is keep a portion of the portfolio out of the volatility buckets.

4) And there is one other approach you may want to consider. I'll explain (for further details, we can send you an illustration. It's called:

INDEXED ANNUITIES

We need to look under the hood to understand how these work. In essence, you invest a portion of your portfolio you don't want exposed to market downside with a participating insurance company (we prefer the more highly rated ones). At your individual one year investment anniversary, you get approximately half (can change some each year) of the upside of the S&P, *but none of the downside*. OR, you can get perhaps the first 7% of the upside instead. The insurance company keeps any remainder to cover the losing years, & make a return. Typically no fees are deducted from the account as long as you stay in it at least 7 years. No taxes are paid on the gains until you take money out as income (there may be a tax penalty before age 59 ½). You can also get a guarantee (for a fee) that if you don't withdraw more than a certain amount each year, you'll never run out of that minimum income guarantee. *Any residual not withdrawn goes to your beneficiary*.

You can't help but like this if a guarantee on principle, and a guarantee on income too is desired. Guarantees are based on the claims-paying ability of the issuing company. It can be a part of the "barbell" program portfolio structure. You've got that portion covered when the boat (suddenly) starts going in reverse.

Both Trump and Saut believe better days are ahead. If Trump has his way, he'll be "making America even greater". The IMF says, you'd better not stop for a recess. Meanwhile, the cyber people tell us we'd better not launch any fancy war machines. They can turn on us. Over and (lights) out in minutes.

If you get cards this Christmas season wishing us "peace and prosperity", let's give it some serious consideration. It might beat the alternative, in my book. Nothing's for sure. Consequently we at IPMG believe: 1) **F**lexible **P**ortfolio **M**anagement (FPM), as explained in our book "Excerpts"); 2) a personal investment "barbell" approach structure considered (from our 9 diverse strategies) with 3 different objectives of stability, income, & growth. We can maybe throw in some index annuities as well. We like the generally "no downside" protection this can offer in a balanced "barbell" weighting.

But let's remember, for those of us that were instructed in the 1950's how to hide under our partially metal school desks when the alarm went off, *the market meanwhile has gone up 25 fold from there,* traveling over lots of portfolio damaging speed bumps. We determine how much of our portfolio we are willing to let be at the whims of politics, computers (HFT), Federal Reserve judgement and then we keep the rest for backup while we wait patiently for the expected repairs.

Here's to reading all about it (the 5 books), being better prepared, rearranging our barbell as needed and then better tolerating our bumpy ride. We'll buckle up, and keep on moving, with the helpful assurance of some safety measures built in.

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