October 11, 2019

Dear Clients,

The portfolios are performing well this year. They are providing the return we need to meet our long-term financial goals while taking measured risks. This is a good thing.

There are concerns, of course. There are always concerns. This economic expansion, the longest in modern history, is now officially in extra innings. Global growth has definitely slowed, and leading economic indicators here in the U.S. are beginning to show some weakness. All that said, there is nothing to suggest we are on the verge of a crisis like we experienced in 2007-2009.

Currently, the markets are watching the ongoing trade negotiations with China with great interest. While our objectives are worthy, this trade war has hurt economic growth around the world. The markets are also watching the Federal Reserve. The Fed has been reducing interest rates, and further rate reductions are expected. The Fed would not be reducing rates unless it saw some reason for concern.

For the time being, the markets seem to be shrugging off the impeachment inquiry, and this makes sense because there is no easy link between the inquiry and asset prices. For more on this topic, please see my quarterly newsletter.

Given the recent increase in volatility, I have repositioned the portfolios by:

1) Eliminating the commodities asset class (which has been volatile and may struggle if we hit an economic soft patch) and moving that money into bonds;
2) Eliminating the private equity mutual fund, as that asset class is more risky than the overall stock market;
3) Repositioning the dividend funds from passive strategies to funds that focus on companies with rising dividends; and
4) Eliminating the more risky emerging-market bonds position and moving that money into more conservative, short-term bonds.

In the next couple of weeks, I will be adding two ETF strategies that focus on lower volatility stocks: the iShares Edge MSCI Minimum Volatility USA ETF (USMV) and the iShares Edge MSCI Minimum Volatility EAFE ETF (EFAV). I will carve out money for these satellite

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positions from the DFA core funds. This should help marginally reduce volatility if we hit any rough patches.

While all the investments in the portfolios are doing well on an absolute basis, here are several that are having a great year (all performance figures are YTD through 9/30/19).

1) The Pimco International Bond Fund has effectively hedged exchange rate risk in this strong dollar environment (up 7.99% compared to its benchmark, 2.94%).
2) The Vanguard Dividend Appreciation Fund is focusing on high-demand dividend stocks (up 23.71% compared to its benchmark, 19.93%).
3) The Vanguard International Dividend Appreciation Fund is also focusing on high-demand dividend stocks (up 16.51% compared to its benchmark, 12.80%).

The only fund that has struggled this year is the Dodge & Cox Stock Fund (up 13.38% compared to its benchmark, 17.67%). This is not surprising, as Dodge & Cox specializes in value stocks and those stocks have struggled in the current environment that has emphasized large cap growth stocks like Apple, Google and Netflix. This blue-chip fund has top-notch management. I am not concerned at this time. This fund should perform relatively well if the market turns down and scared investors decide to dump high-flying technology stocks.

The core DFA positions have rebounded nicely. As you may recall, the DFA positions are slightly weighted in favor of value and small cap stocks. Both of those categories are solid long-term performers but have been out of favor for the past two years.

The DFA US Core Equity Fund is up 19.22% (compared to its benchmark, 19.93%). The DFA International Core Equity Fund is up 11.24% (compared to its benchmark, 12.80%). The DFA Emerging Markets Core Equity Fund is up 4.96% (compared to its benchmark, 5.36%). Over a 10-year period, all three of these funds have equaled or exceeded their respective benchmarks.

Generally speaking, the bond positions are doing very well, as the unexpected decrease in interest rates has driven up the value of existing bonds. The real estate position is also having a great year. These positions are contributing nicely to total returns.

Now, we just need a solid fourth quarter.

Finally, on a separate note, the current news cycle is disheartening. Unfortunately, the country is deeply divided; there is less and less ground for anyone in the middle to stand on, draining our energy and straining our relationships. The amount of day-to-day turmoil is head-spinning. In the evening, most of us spend some time spelunking in our favorite echo chamber (e.g. CNN or Fox)

to watch the latest outrage. It's exhausting. For good mental health, I strongly recommend a cable news diet.

During these turbulent, divided times, we need to keep our eye on the ball. We will focus on our long-term financial objectives and use a steady hand when it comes to our finances. We will take care of ourselves and our families. We will strive to accomplish our daily work or enjoy our retirements. This is the real world — the one right in front of us. It is worthy of our full attention and focus while we wait to cast our vote in 2020, whichever way that may be. At least this is the lecture I give myself when I feel anxious and concerned about current events. I'm not sure it works, but I'm sticking with it.

I will be monitoring market conditions carefully, as always. If you are stewing over current market conditions or political issues, pick up the phone and give me a call. Let's talk it through. I am here to help.

Sincerely,

D. Austin Lewis