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Dear Atherean Wealth Management client:

Enclosed is your portfolio summary report for the quarter ending June 30, 2019, as well as an investment advisory fee statement for the third quarter of 2019. The portfolio summary report shows the holdings in your accounts as well as an overview of your portfolio asset allocation as of the close of the second quarter of 2019. It also provides a summary of your investment objectives, time horizon, and risk tolerance as per our records. It is important that you review this information and let us know if any of it is incorrect.

Equity and Fixed Income Market Performance

Volatility returned to U.S. equity markets in the second quarter, as attention moved away from interest rates and Fed policy back toward trade and tarriffs. This was despite a downward shift and flattening of the U.S. treasury yield rate curve at longer maturities. As a result of the downward movement in interest rates, most fixed income indexes outperformed equity indexes for the quarter, with the Barclays U.S. aggregate bond index up 3.3%, the S&P 500 index up 3.0%, the Russell 2000 small cap index up 0.8%, and the MSCI EAFE (Europe, Australasia and Far East) index up 2.2%, on a total return basis. Year to date the the S&P 500 index is up 18.3%, the Russell 2000 small cap index is up 16.9%, the MSCI EAFE (Europe, Australasia and Far East) index is up 14.2%, and the Barclays U.S. aggregate bond index is up 5.8%, on a total return basis.

Economic and market review and outlook

As of the date of this letter many U.S. companies have begun to report earnings for the second quarter, and they have for the most part exceeded consensus expectations. This is encouraging news for the U.S. economy and for U.S. equities. However, despite these solid corporate results, we remain concerned about a global slowdown in the developed economies. The U.S. treasury spot rate curve is inverted for shorter maturities. Sovereign yield curves in several other G7 countries, including Japan and Germany, have for the most part inverted for shorter maturities as well. Although these inversions can be explained partially by investor expectations related to more dovish central bank policies, we are vigilant about the possibility of a recession. Inverted sovereign yield curves cause concern for investors because they have been very accurate in predicting economic slowdowns in the past. The rationale for this is that if investors anticipate a recession, they will spend less money today and save and invest more money for when they believe the recession will occur. This will result in an increase in demand for treasury bonds which have maturities that match investors' liquidity needs, lowering the yield of these debt instruments. For example, if investors believe they will need more money two years from now, when they believe a slowdown and/or recession will occur, they would forgo spending today and invest these funds into two year treasuries, bidding up two year treasuries and reducing their yield to maturity. This would result in a lower spot rate on the two year treasury and an inverted yield curve.

Portfolio Management Process

As we discussed in the previous section, we closely monitor and follow the global economy, corporate earnings, and other financial market indicators. We do this because we believe that the more pieces of the financial and economic "mosaic" that we understand, the more effective we will be as portfolio managers. This being said, we want to reiterate that we do not attempt to forecast or time financial markets when managing the overall asset allocation of your portfolio. As we have described in past quarterly updates, we construct portfolios by determining an asset allocation based upon your risk tolerance. Your risk tolerance can be defined as a function of your time horizon, investment objectives, liquidity needs, tax planning objectives and other factors. We build your portfolio by maximizing the expected return of the asset classes in your portfolio given the amount of risk that you are willing and able to bear. Your risk tolerance, a function of "internal" factors which are related to characteristics of you, the investor, takes precedence over "external" factors related to characteristics surrounding the macroeconomic and political environment described in the previous section. This being said, as we described in the last quarterly update, we do frequently seek to purchase securities which are trading at a discount to their intrinsic value as determined by valuation models which we build. These valuation models are based upon very conservative microeconomic, company-specific assumptions as well as upon conservative, "worst case scenario" macroeconomic assumptions related to the environment in which we are living and operating.

Let us know if there are any changes to your financial profile or investment objectives. If you would like to review your portfolio and/or financial plan in greater detail, have any tax planning or tax advice concerns, or have any other questions or concerns, feel free to contact us.

Sincerely,

Atherean Wealth Management, LLC