BERMAN CAPITAL ADVISORS

Q4 Review & 2019 Outlook

January 24, 2019

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Disclosures

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Summary Outlook

- The two most important reasons for the sharp selloff in the fourth quarter of 2018 were fear of an overly aggressive Fed, and a worsening U.S. – China trade dispute. There are signs of progress on both issues.

- The global economy is now slower, but not in recession, a crucial distinction. In the near-term equities arguably have overreacted. We expect global growth to bottom around midyear and to improve in the second half of 2019.

- The most significant risks are waning fiscal stimulus this year and ongoing trade frictions, which could push a modest economic slowdown into an outright contraction. This is not our base case.

- Long term stock and bond return expectations should be modest due to starting valuations and less monetary support in coming years; quantitative tightening rather than easing. There will be more opportunities for active management, especially distressed / complex investments.

Major Asset Class Performance

- Equity markets came under severe pressure in Q4 of 2018.
- Technology stocks led the stock market on the way up, and while hit hard in the fourth quarter, they finished the year a bit better than the broad market.
- This was a rare year where cash was better than almost every other asset class. Bonds had only a fractional gain.
- Oil fell sharply as U.S. production growth continued and the Trump administration unexpectedly issued waivers to Iran's customers.

Benchmark Index	2018 YTD	Q4 QTD
S&P 500	-4.4%	-13.5%
Russell 1000 Growth	-1.5%	-15.9%
Russell 1000 Value	-8.3%	-11.7%
Russell Midcap	-9.1%	-15.4%
Russell Small Cap	-11.0%	-20.2%
MSCI EAFE (International)	-13.4%	-12.5%
MSCI Europe	-14.3%	-12.7%
MSCI Emerging Markets	-14.2%	-7.4%
MSCI Japan	-12.6%	-14.2%
US Aggregate Bond	0.0%	1.6%
Long Term Treasury Bonds	-2.0%	4.2%
High Yield Bonds	-2.1%	-4.5%
Leveraged Loans	-0.6%	-4.4%
Crude Oil	-6.2%	-14.0%

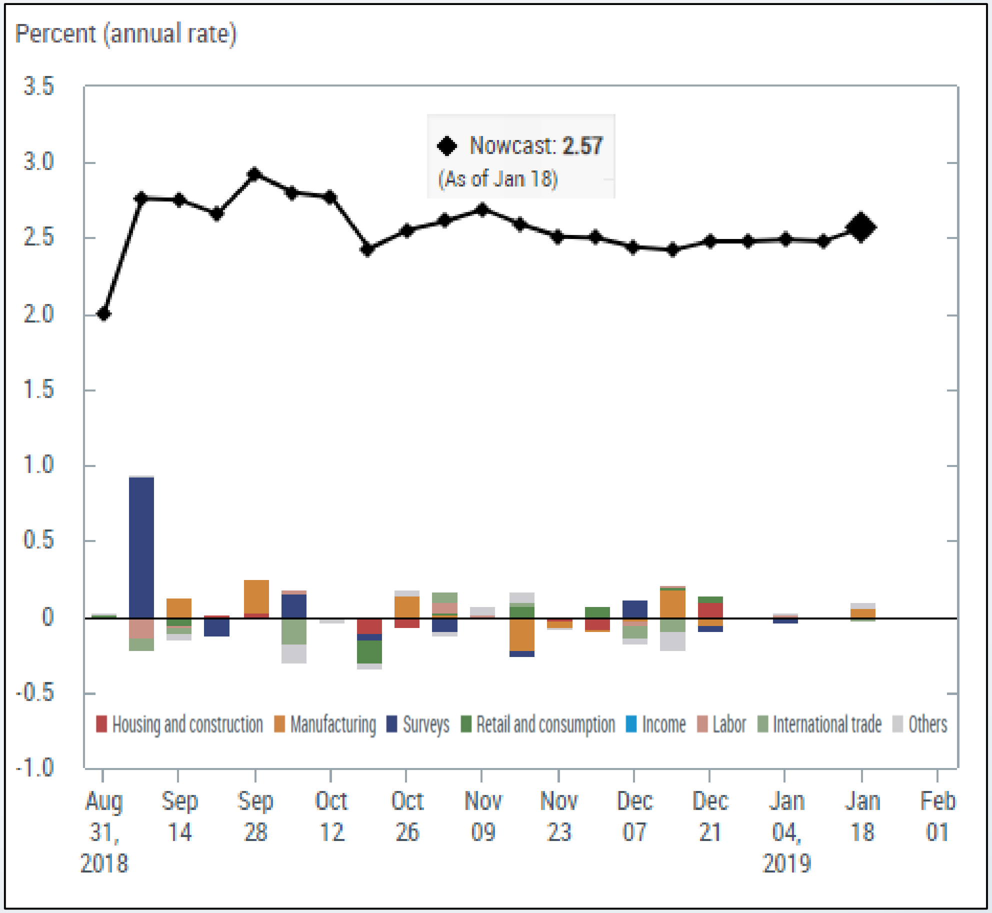
Source: Factset Research

Note: Int'l market returns reported in U.S. Dollars, not local currency

U.S. GDP: Unsurprising Slowdown

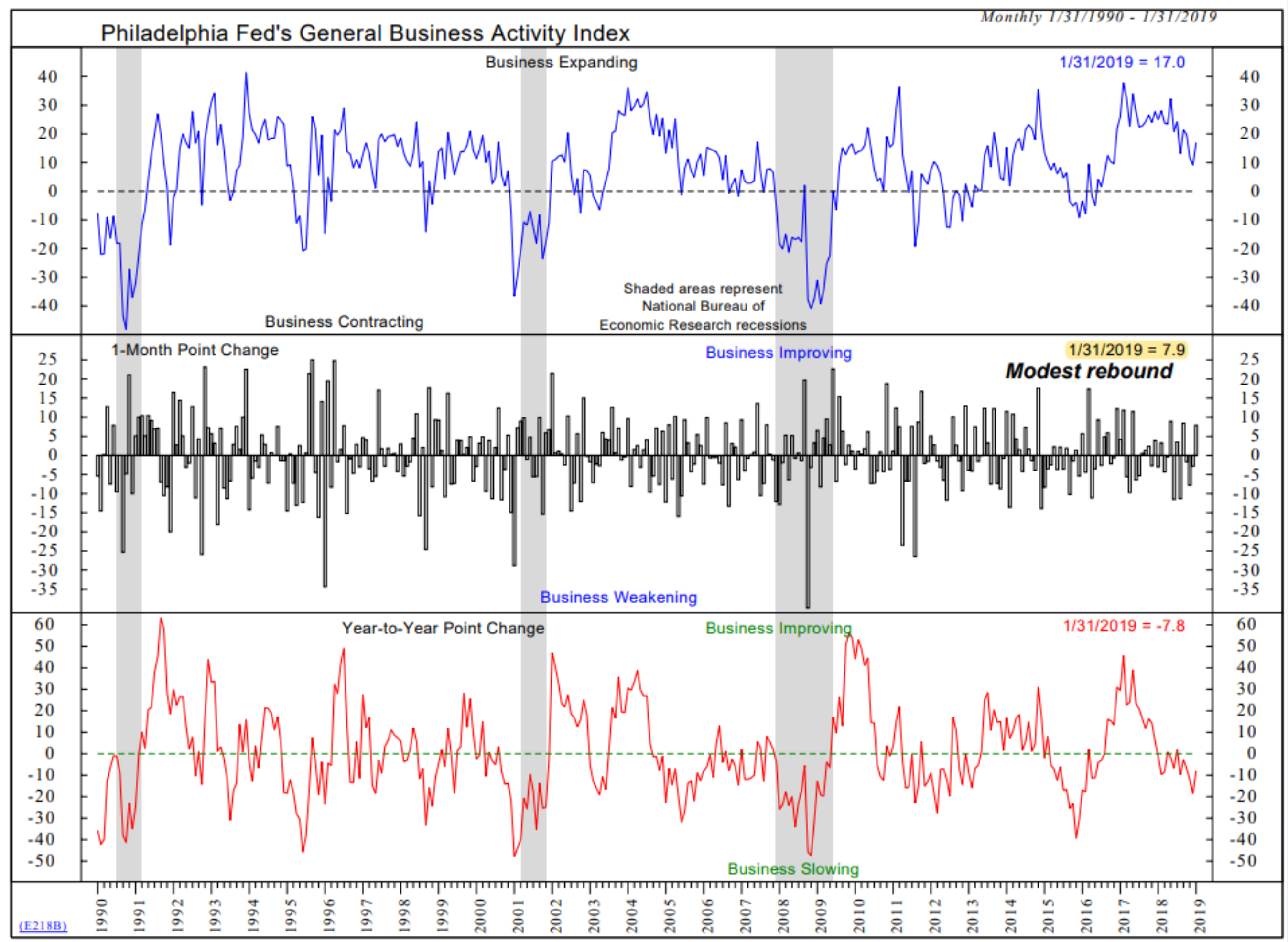
- In 2018 the economy benefitted from tax cuts, higher oil prices and capital spending.
- The economy is now slowing, but from an artificially high level.
- The overall economy story is surprisingly good in light of the headwinds now present. The NY Fed still predicts over 2.5% growth for Q4 and 2.2% for the first quarter of 2019.

New York Fed GDP Now Forecast

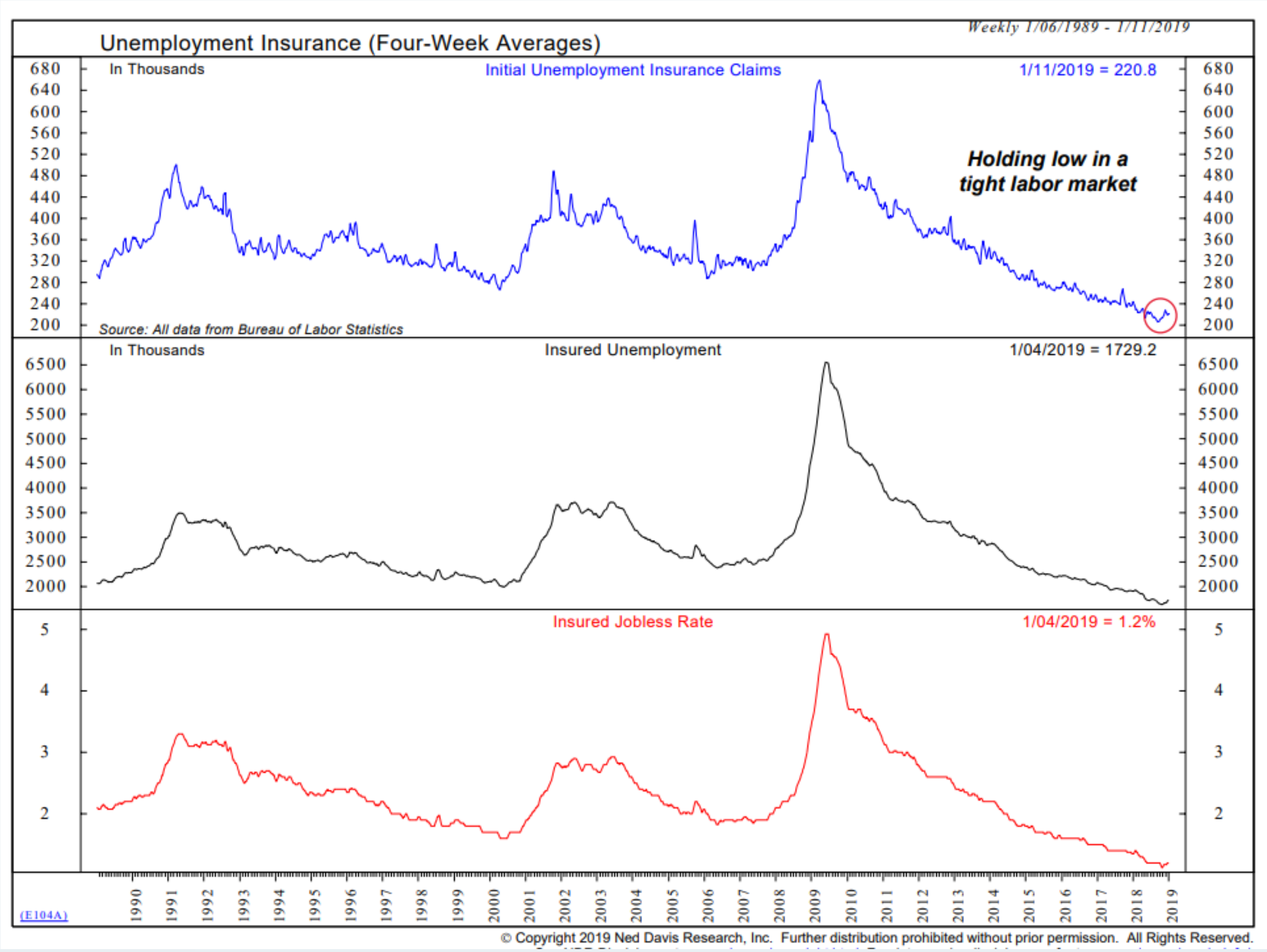


Source: New York Fed

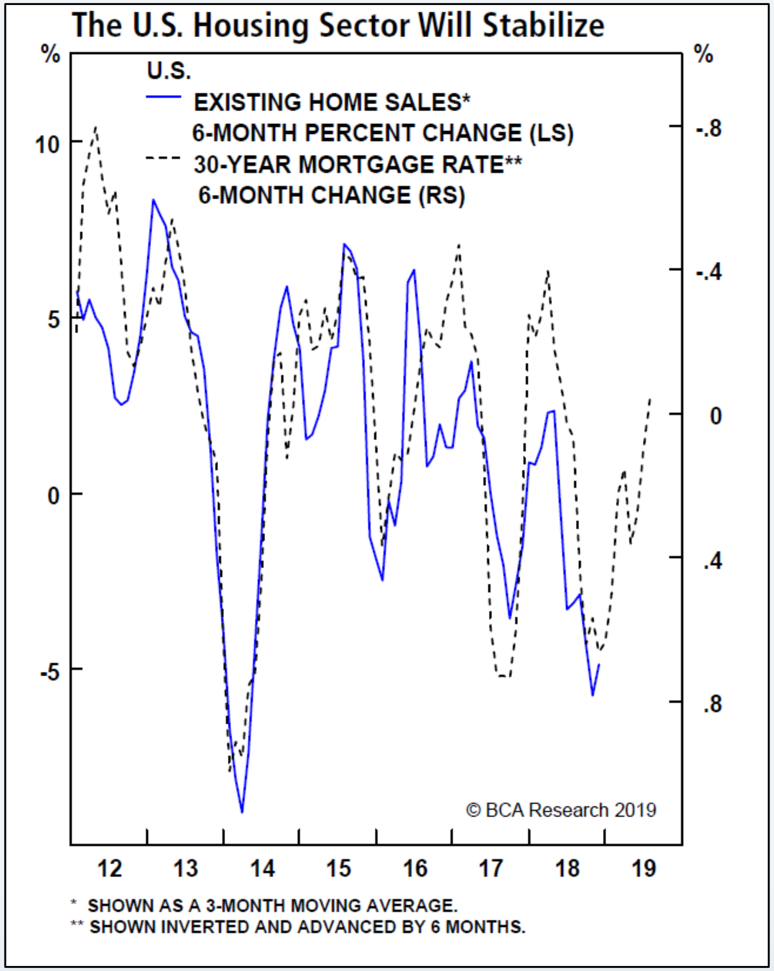
Economic News Mixed, not Poor



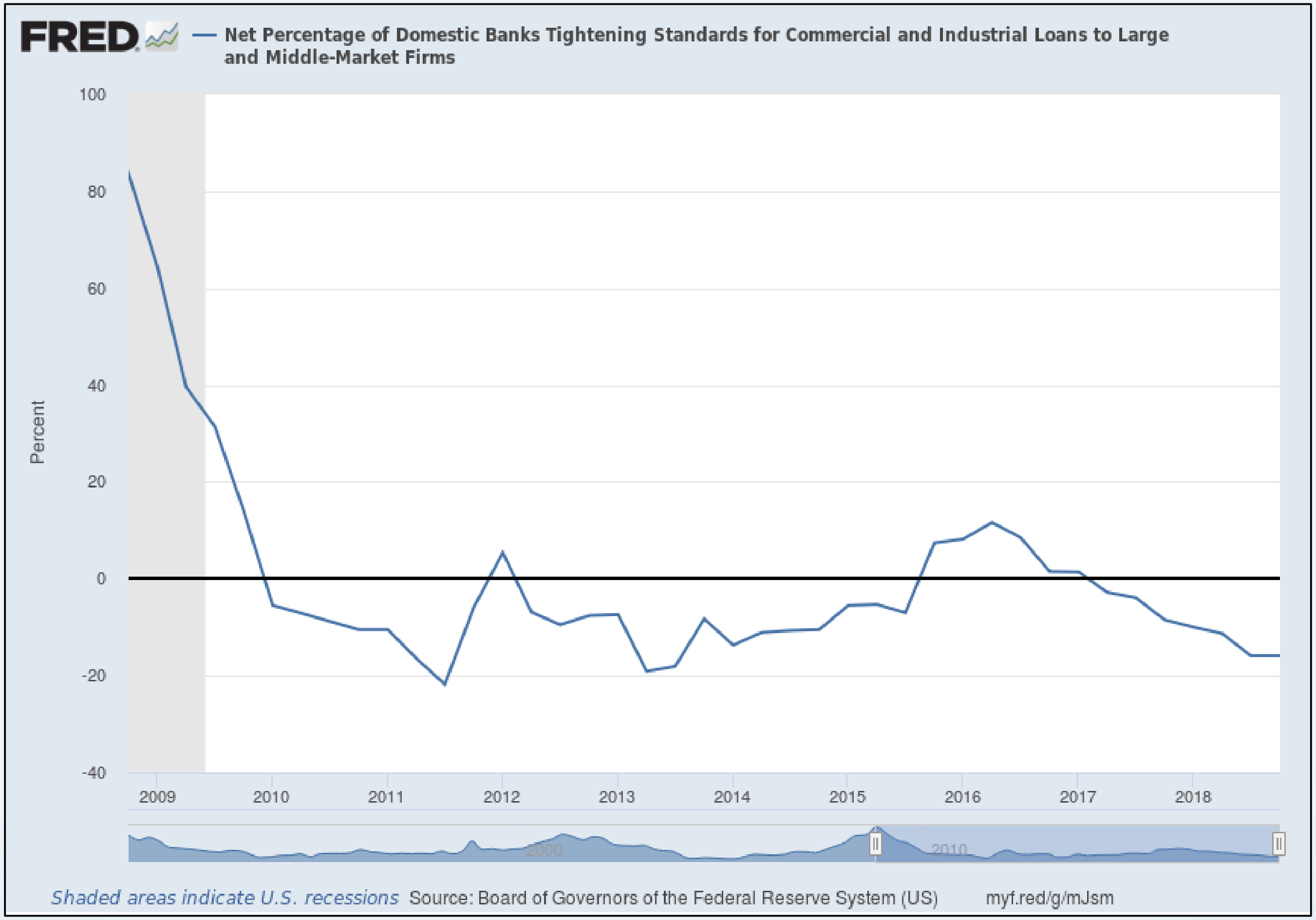
Economic News Mixed, not Poor



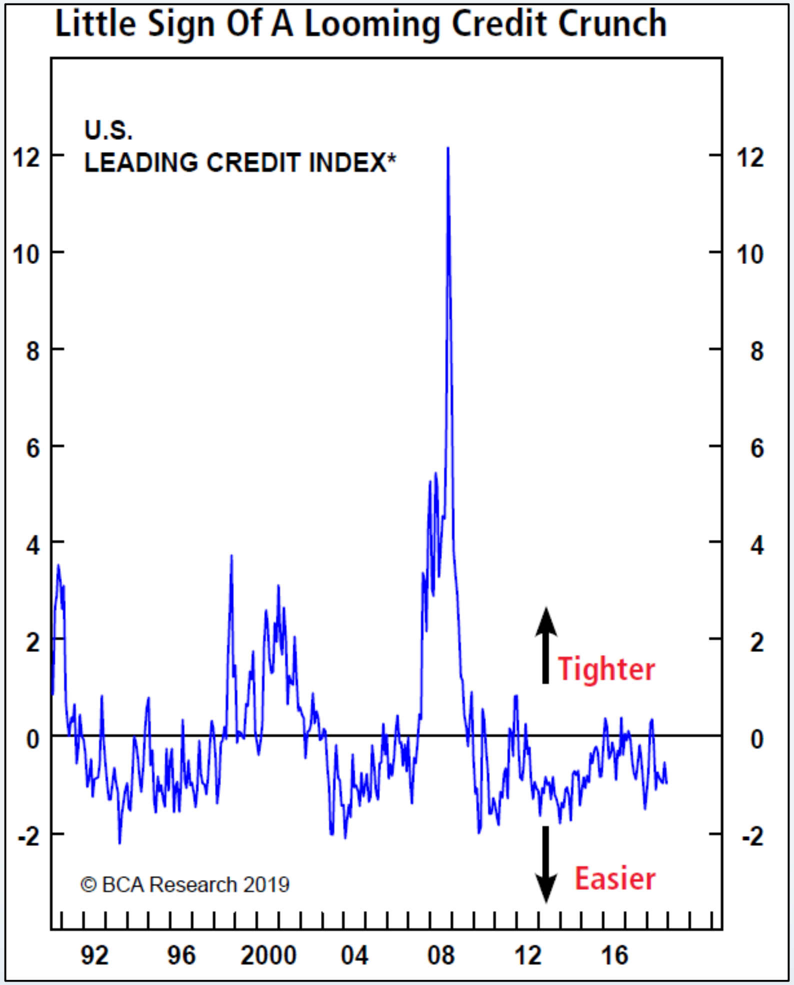
Housing Supported by Lower Rates



Banks are Not Constricting Credit



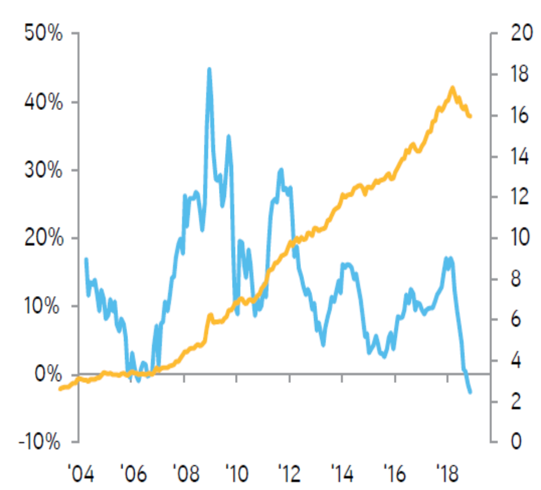
Financial Conditions Not Too Tight



Source: The Conference Board

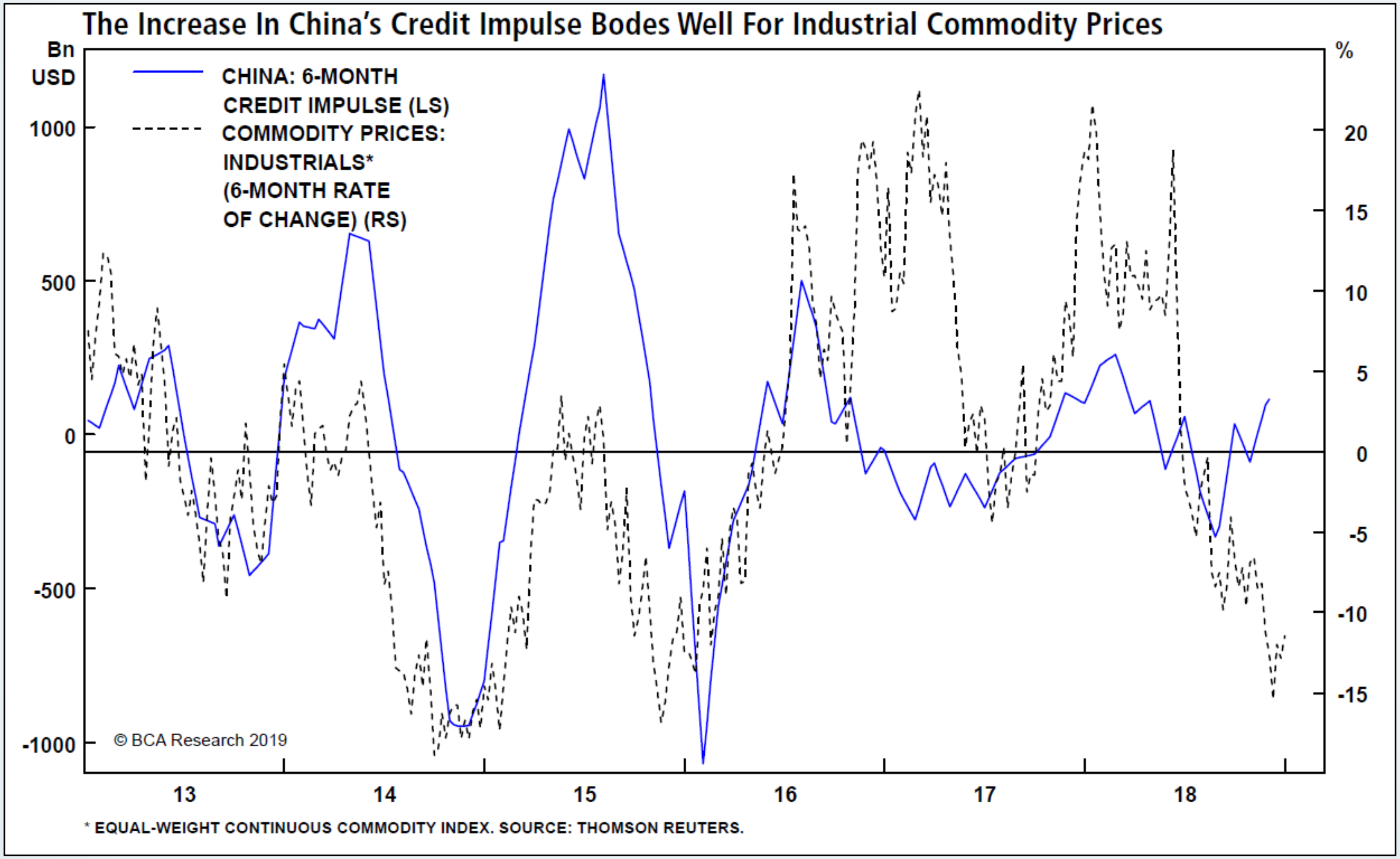
Monetary Policy: Loose Overall

- The broad money supply is now shrinking, but from an extraordinarily high level.
- While the Fed is allowing bond holdings to mature, Japan and Europe continue to expand their balance sheets.
- We believe this should be viewed as the partial withdrawal of emergency support, rather than conventional tightening.

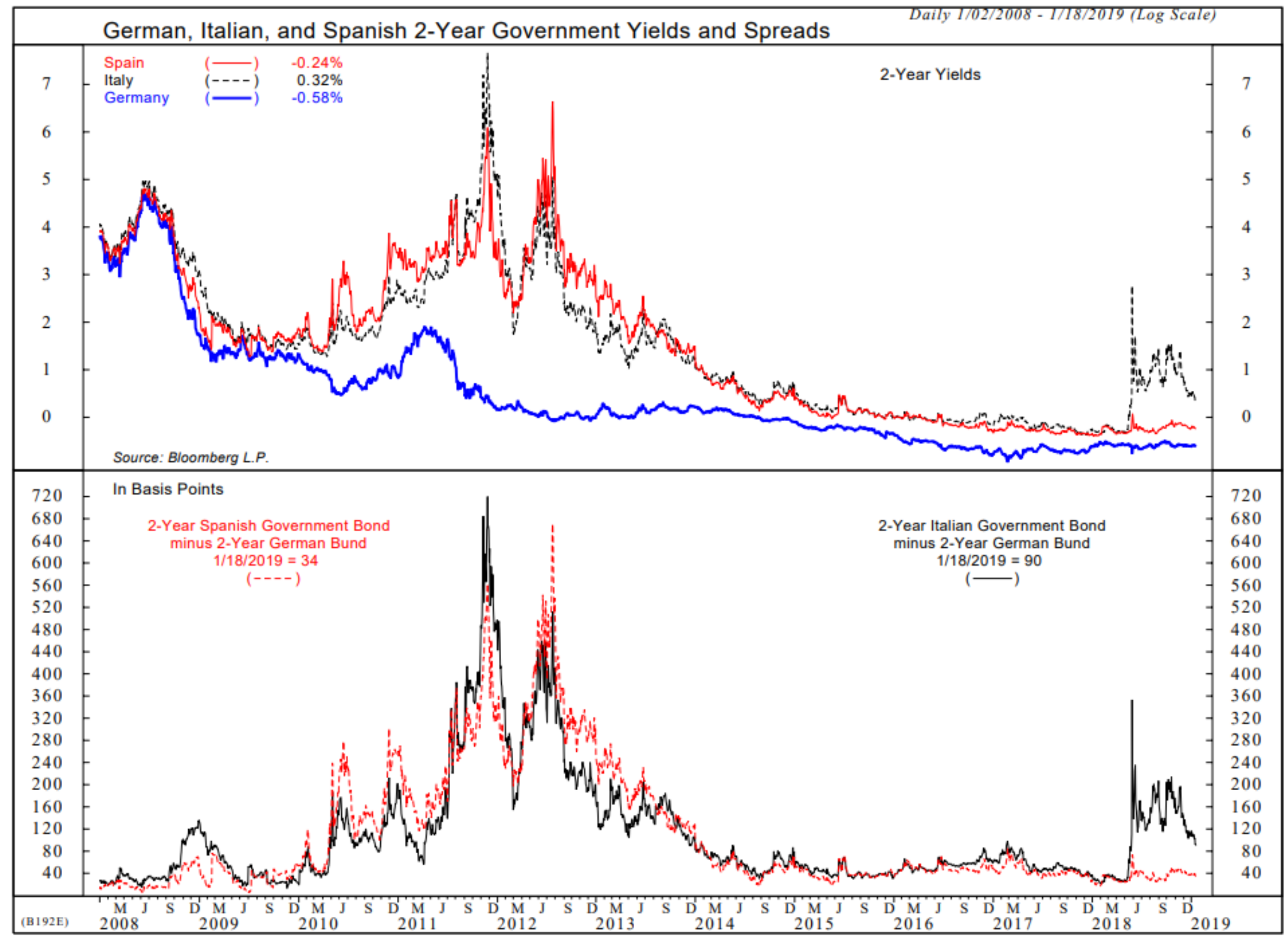


Data as at December 20, 2018. Source: Federal Reserve Board, European Central Bank, Bank of Japan, People's Bank of China, Haver Analytics.

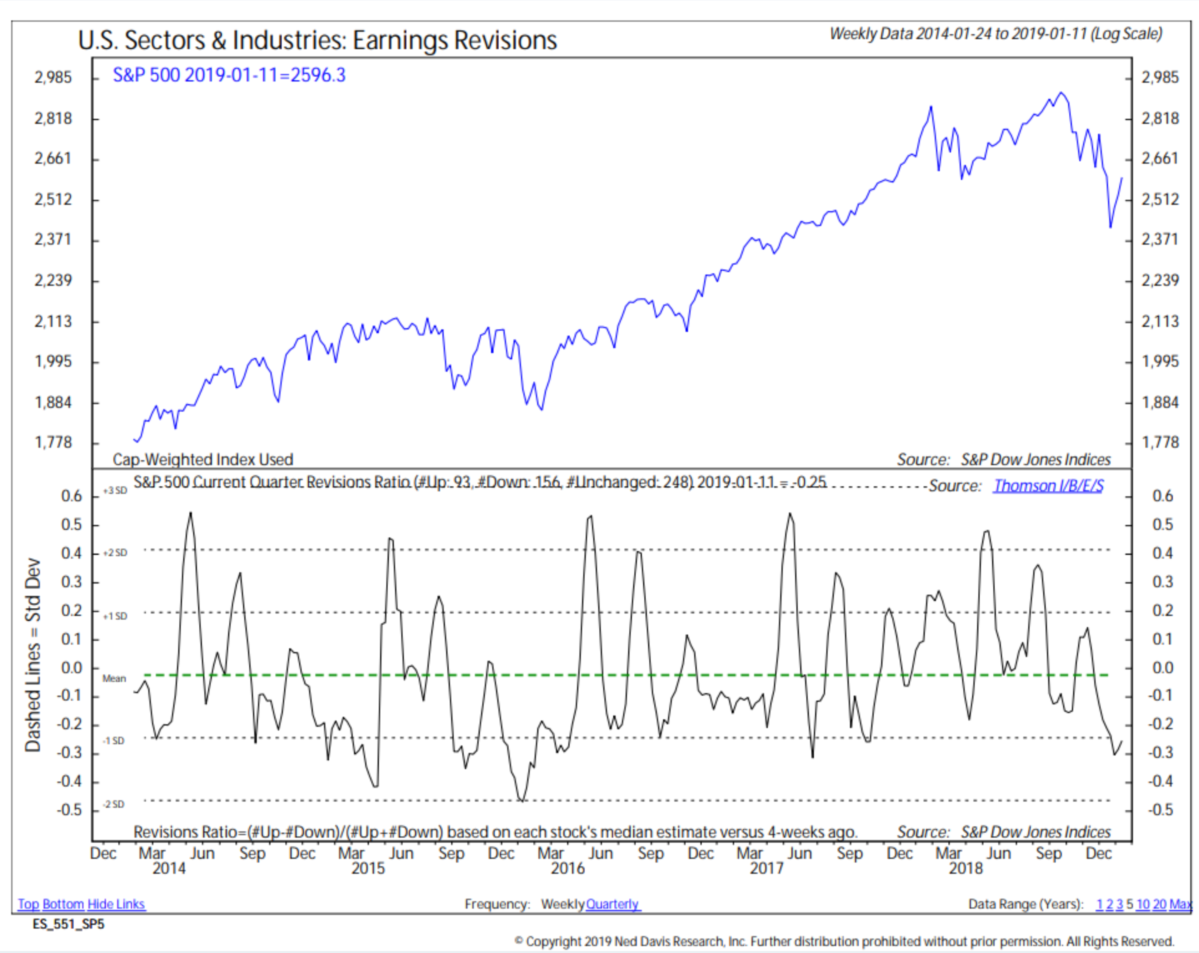
International Outlook: China



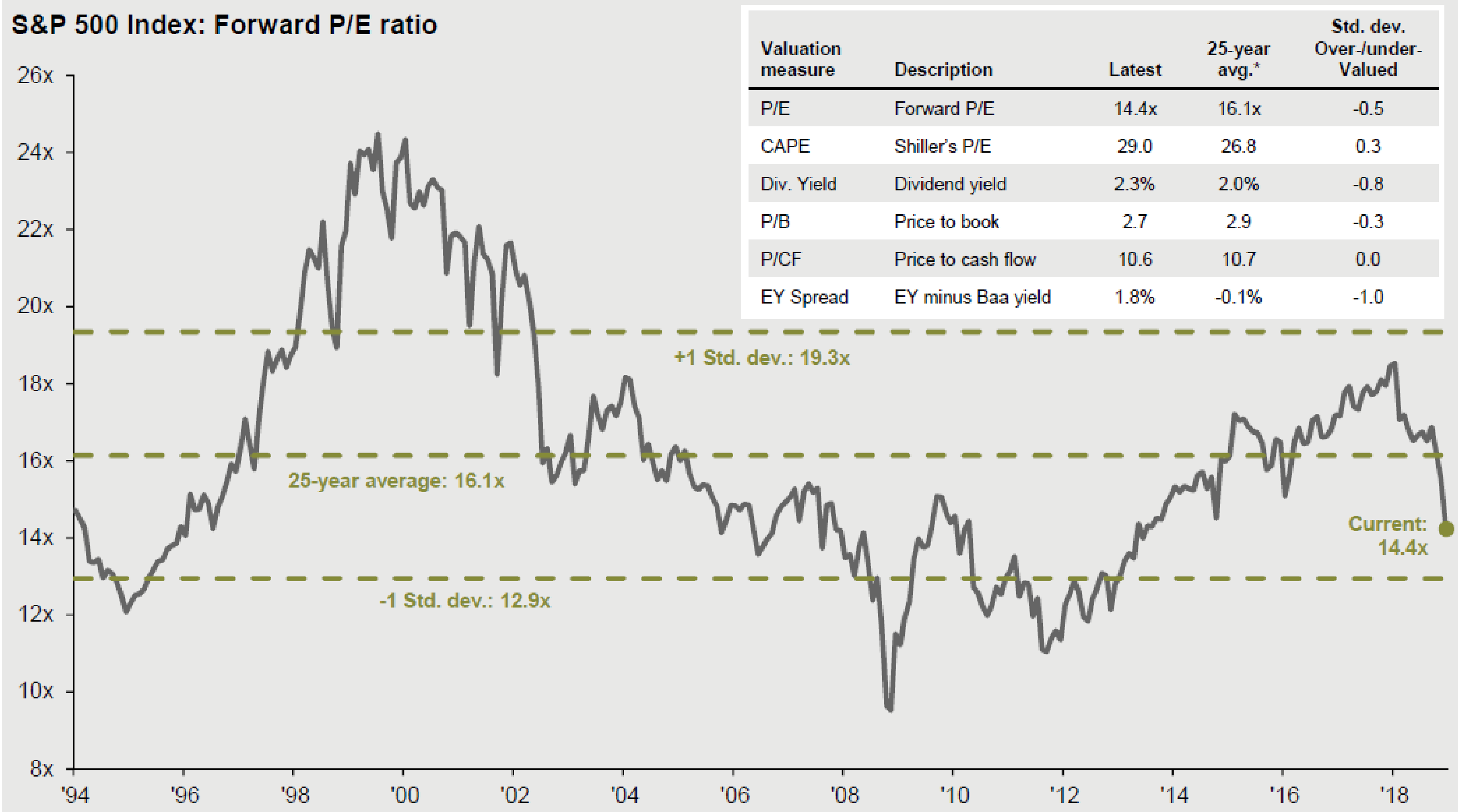
International Outlook: Europe



Earnings: Bad News Fully Priced In?



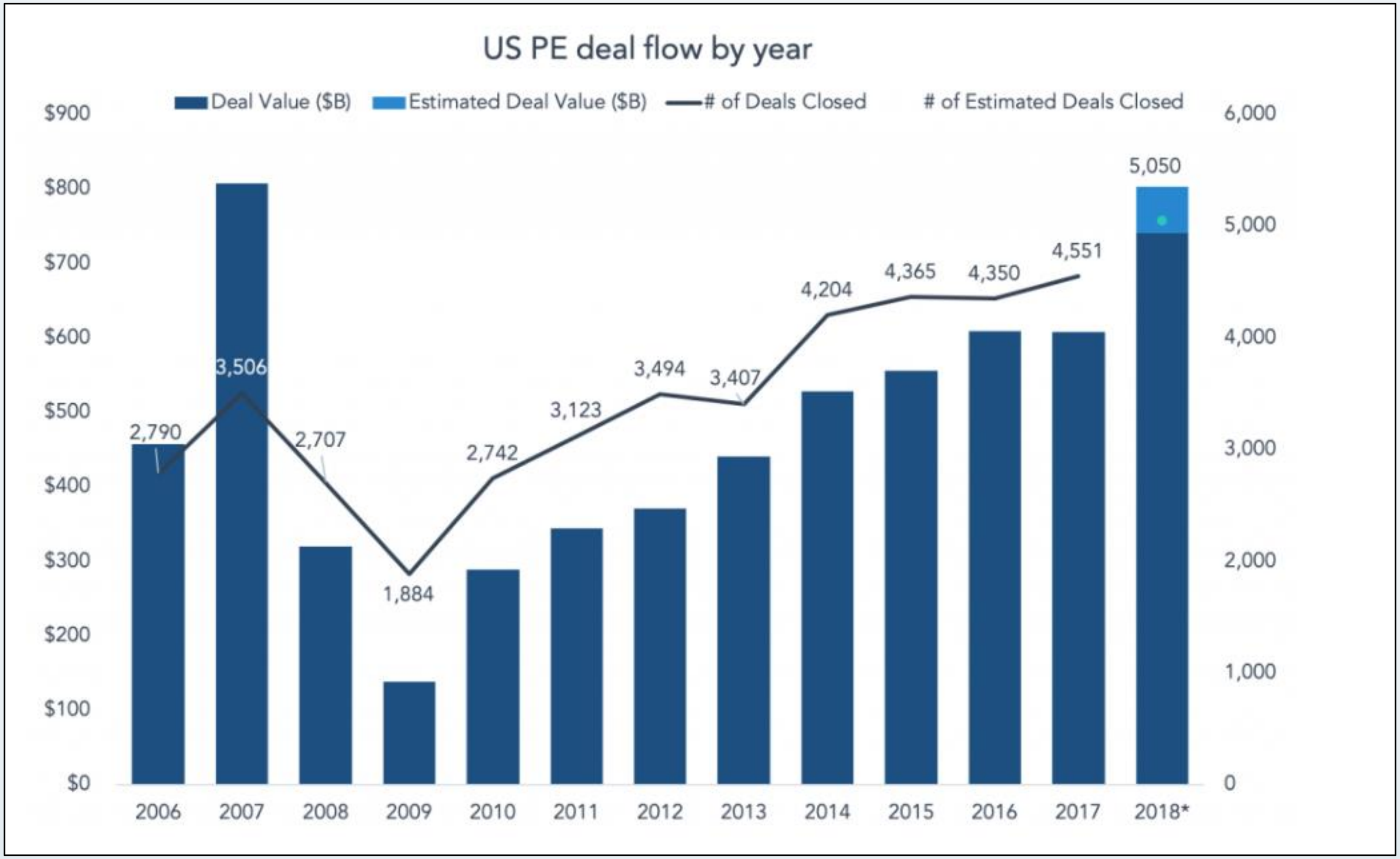
S&P 500 Valuation Reset



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	14.4x	16.1x	-0.5
CAPE	Shiller's P/E	29.0	26.8	0.3
Div. Yield	Dividend yield	2.3%	2.0%	-0.8
P/B	Price to book	2.7	2.9	-0.3
P/CF	Price to cash flow	10.6	10.7	0.0
EY Spread	EY minus Baa yield	1.8%	-0.1%	-1.0

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.

New High in Private Equity Deals



Source: Churchill Asset Management

Conclusion

- The fourth quarter of 2018 brought a surprisingly sharp correction, but we don't think this heralds the start of a recession or a deeper decline.
- The Fed is signaling flexibility and will be on hold until growth or inflation rise higher.
- Uncertainty regarding trade continues to be an issue, although there are signs of progress. Domestic politics in the U.S. and China are the wild cards.
- We believe investors should favor shorter duration bonds and accept moderate credit risk.
- Additional caution is warranted in some areas of private equity.

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