WORLDWIDE STRATEGY & OUTLOOK

STRATEGY ASSET MANAGERS

STRATEGY

Our Worldwide Equity strategy did not escape the market decline in the 4th quarter. However, we were happy that our companies defended well, giving up -10.7% compared to our Global Equity Benchmark dropping -13.3% and the S&P 500 down -13.5%, respectively. It was rewarding to see our Value based strategy defend well during the 4th quarter market turbulence.

Our Worldwide Balanced strategy was slightly behind the benchmark for the quarter, -7.9% versus -7.4% for our Global Balanced index. The slight underperformance for the quarter was directly tied to the flight to quality and the yield curve flattening favoring longer maturity bonds. At this stage of the economic recovery, we do not want to expose client's bond capital to a potentially rising interest rate environment. In addition, the shorter maturity bond structure allows us to reinvest money in a more attractive interest rate environment. The bonds that are maturing currently that were providing 1.7% - 1.9% yield to maturity are now being reinvested at 3% to 3.5% with no increase in duration risk.

On a 2018 calendar year basis, our Value-driven based equity portfolio did not outperform our Global Equity Benchmark. Worldwide Equity was down -7.4% compared with -6.2% for our Global Equity index and -4.4% for the S&P 500. We have commented previously on how the S&P 500's return has been driven by the larger capitalization technology stocks so we aren't going to revisit that saga again. We believe that, after witnessing a market largely dominated by a handful of growth stocks, we may now be finally returning to a more balanced market where value stocks can outperform. In any event, our objective has always been and continues to be to invest in durable franchises that trade at discounts to intrinsic value. The Worldwide Balanced return was down -5.3% for the year in comparison with -3.2% for our Global Balanced index. Again, much of the underperformance was tied to the outperformance of Growth stocks versus Value, and, in addition, a higher allocation to equities than our index.

We started out last quarter's commentary with the lament that the Value investor has not been rewarded. We can say that this quarter did support our thesis that our companies are now getting the respect they deserve based upon valuation and underlying fundamentals.

We added one new position during the quarter, Becton, Dickinson & Co., a leading manufacturer of medical supplies, equipment, and diagnostic equipment on a worldwide basis. The company is well positioned for the emerging need for more sophisticated medical supplies and equipment on a global basis. Also, we believe we bought the company at a very attractive price.

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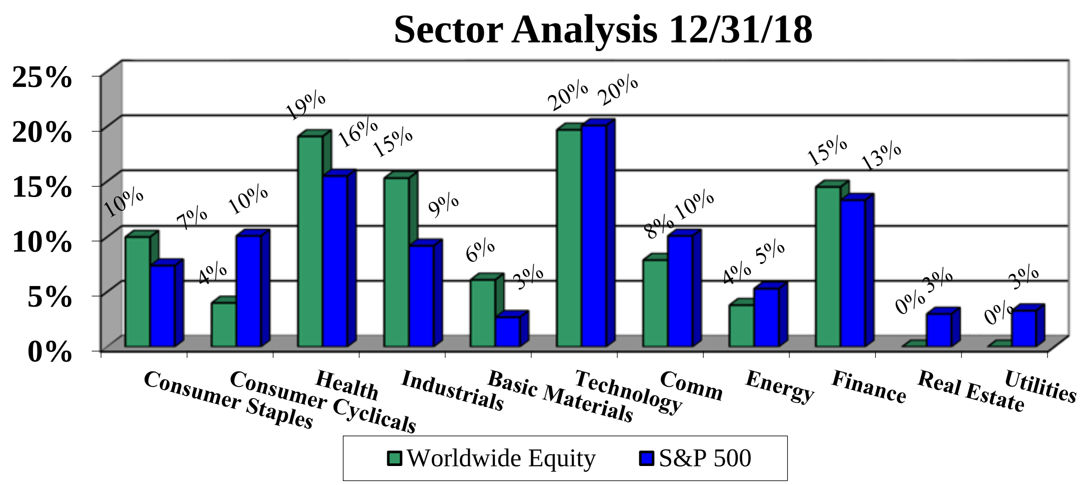
The sector chart shows the sector weightings as of December 31, 2018.



We had some very strong relative performance from some of our companies in the quarter.

Top 5 Performance Contributors		Bottom 5 Performance Detractors	
Merck & Co.	8.5%	American Int'l Group	-25.3%
Diageo	0.1%	Lockheed Martin	-23.8%
Pfizer	-0.2%	General Dynamics	-22.9%
Nestle	-2.7%	Emerson Electric	-21.4%
Chubb	-2.8%	Int'l Paper	-16.9%

OUTLOOK

Remarkably, Fed Chairman Powell speaking after the Fed raised the fed funds rate by a quarter percent (to 2.5%) on December 19th stated "Where we are right now is the lower end of neutral."- a mere 2 ½ months and only one interest rate rise after his "a long way from neutral" comment. Concerns about China trade/tariffs, and visibly slowing China and European economic growth and possibly in the US as well, were apparently enough to change the Chairman's mind to a more flexible stance. In subsequent comments, he stated rates could be lowered and/or other tools could be used to stimulate growth if need be.

We bore you with these details because we believe the change in the Fed stance is an important change in conditions that may lead us back to the "Goldilocks" scenario as economic growth slows back towards 2% in the US in 2019 (current estimates center around 2.5%), unemployment remains stable (which at 3.9% is basically full employment) and the Fed's favorite inflation gauge remains around 2% (currently 1.9%). Quite frankly, we wondered at times what war the Fed was fighting (by consistently raising the funds rate by 2% over the last 2 years) as their mandate from Congress is full employment with stable low inflation (generally considered 2%). Of note, over the last month the change in the probability for fed funds in 2019 has gone from 39% for one 0.25% hike to a 24% chance that the Fed will lower once by 0.25%. Wow.

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With the Fed going to the sidelines, the China trade negotiations have moved to the forefront of investor worries and the situation continues to hurt many international companies as well as investor sentiment. According to FactSet, earnings revisions for Q4 2018 during the course of the 4th quarter have lowered the earnings growth rate from +16.7% to 11.4%. In addition, the American Association of Individual Investors (AAII) Sentiment Survey (12/27/2018) showed bearish sentiment exceeding 50% for the first time since 2013.

With the approximately 20% drop in the S&P 500 index from its high during the quarter to the low, stock valuations have moved to the "cheaper side" of average at approximately 15x forward earnings. Additionally, the extreme bearish sentiment in the AAII survey has often preceded strong rallies as evidenced by the 2 year rally in the S&P 500 index from the Spring of 2013 until Spring 2015. We also believe that a return to a Goldilocks economic environment will provide a solid foundation for the stock market as earnings continue to grow, but will keep the Fed from murdering the economic expansion (to paraphrase former Fed Chairman Bernanke).

Unfortunately, the China situation remains hard to handicap. Meetings continue between the two sides and pronounced slowing in Chinese economic activity may well force a faster settlement. News about the negotiations are certain to add volatility to the market, but without a settlement we believe the market can produce positive returns based on current valuations, a gentler Fed and earnings growth. A positive China trade result could significantly add to returns. Stay tuned.

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