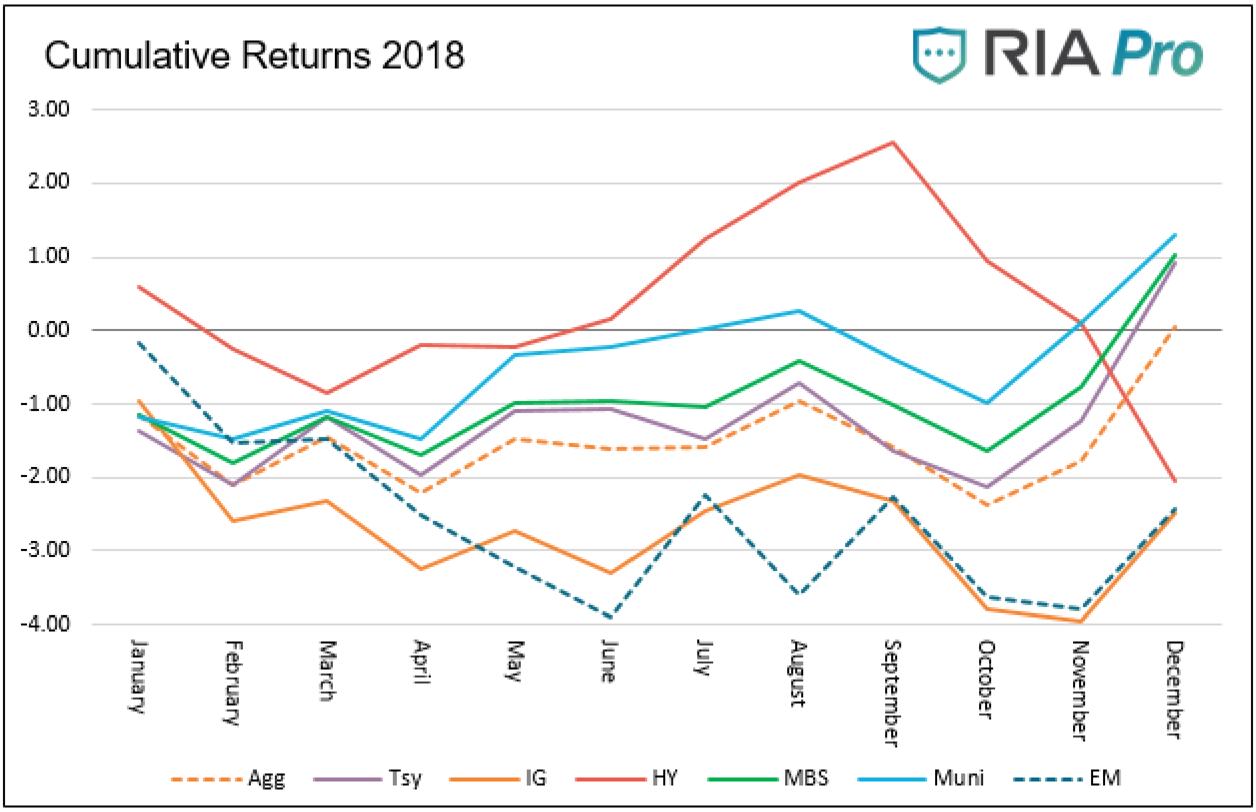
The fourth quarter of 2018 was a bad year for lower rated, riskier fixed income products. In review of December?s fixed-income performance as well as 2018 in general, there are a few key themes that are prevalent.

1. Interest rates moved higher throughout the first three quarters of the year and then abruptly reversed course and reclaimed nearly 75% of the selloff from the first nine months (5, 7, 10 and 30-year U.S. Treasury bonds).
2. After outperforming all other primary fixed-income sectors for the first nine months, high yield bonds collapsed in the final three months finishing the year with negative total returns.
3. Investment grade corporate bonds and emerging market bonds were the worst performing sectors throughout the year losing roughly 2.50%.
4. Without regard for the direction of interest rates, the yield curve continued to flatten as Fed policy and more recently economic concerns caused the short end (2-year Treasuries) to underperform and the long end (10-year and 30-year bonds) to outperform.
5. December proved exceptionally strong for safe haven securities like Treasuries, municipal securities and mortgages helping turn those categories positive for the year.

RIA Pro	MTD Total Return	3 Month Total Return	YTD Total Return	12 Month Total Return	Current Yield to Worst
U.S. Aggregate	1.84	1.64	0.06	0.06	3.28
Agg. Treasury	2.15	2.57	0.86	0.86	2.61
Agg. Investment Grade - Corp.	1.47	-0.18	-2.51	-2.51	4.20
Agg. High Yield - Corp.	-2.14	-4.53	-2.08	-2.08	7.95
Agg. Securitized (ABS, MBS, CMBS)	1.78	2.04	0.99	0.99	3.38
Agg. Investment Grade - Muni.	1.20	1.69	1.28	1.28	2.69
Agg. Emerging Markets	1.37	-0.18	-2.46	-2.46	6.05
Data as of 12/31/2018					

RIA Pro	MTD Total Return	3 Month Total Return	YTD Total Return	12 Month Total Return
AGG (U.S. Aggregate)	1.98	1.85	0.10	0.10
GOVT (Agg. Treasury)	1.50	1.98	0.26	0.26
LQD (Agg. Investment Grade - Corp)	1.86	-0.59	-3.79	-3.79
HYG (Agg. High Yield - Corp.)	-2.99	-4.41	-2.02	-2.02
MBB (Agg. Securitized (ABS, MBS, CMBS)	1.41	2.10	0.82	0.82
MUB (Agg. Investment Grade - Muni.)	0.93	1.90	0.93	0.93
EMB (Agg. Emerging Markets)	0.21	-1.15	-5.47	-5.47
Data as of 12/31/2018				

There were numerous times throughout the year when our recommendation to take a conservative tack by moving up in credit and avoiding the more expensive and riskier fixed income categories seemed foolish. In hindsight, the description foolish should be replaced with smart. Investors can draw a bright line at September 30, 2018 as a point of demarcation. Prior to that date, high yield and other risky sectors like leveraged loans, could do no wrong while every other fixed income asset class languished as interest rates rose. With the economy humming along, employment and hiring robust and inflation concerns burgeoning, the Fed was methodically hiking interest rates. The adjustable rate of interest on leveraged loans made them attractive in a rising rate environment and the higher coupons and shrinking supply of junk bonds (high yield securities) similarly made them appetizing to investors. The last thing investors were worried about in a strengthening economy was credit related losses. Complacency peaked at the end of September, with fresh record highs in the stock market and favorable returns from its closest proxy, high yield debt. A variety of issues



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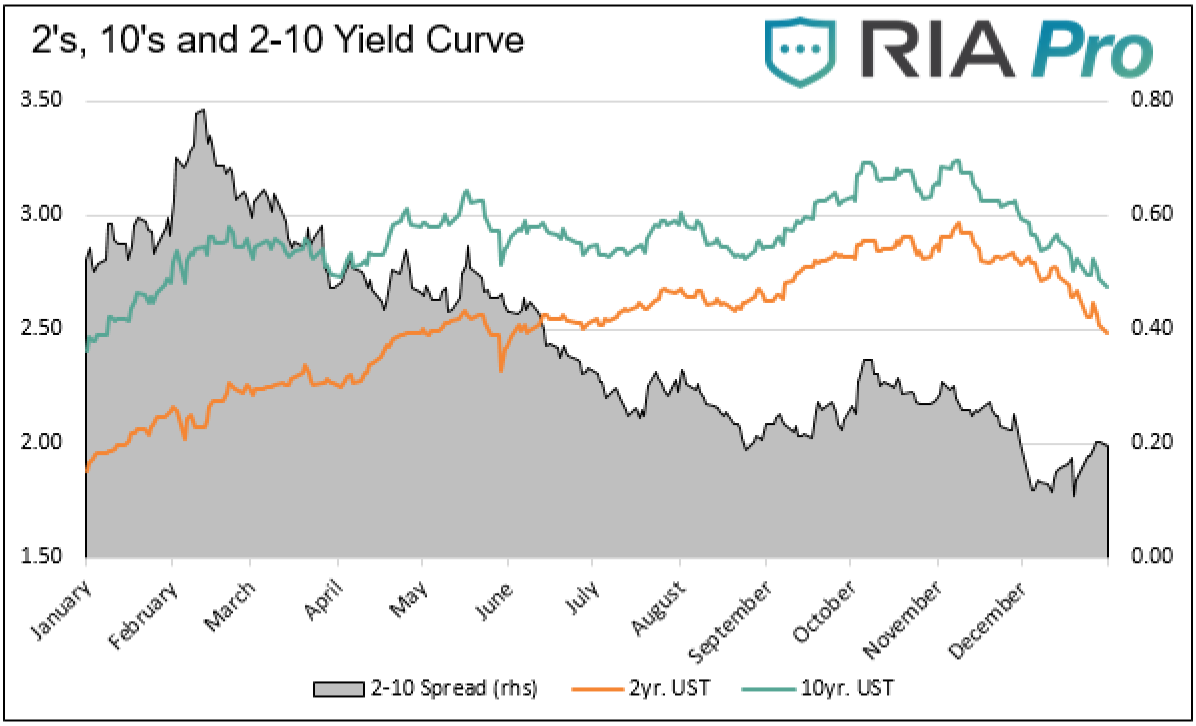
As we

have expressed throughout the year, there is a lot to worry about in the world and the United States is not immune to those concerns. Concurrently, U.S. markets have assigned expensive prices to the riskiest of assets. For all of 2018, we have urged readers to adjust their investment posture increasingly toward protecting capital. Although now the second longest in recent history, the current expansion has been the weakest on record as it was mostly promoted by artificial stimulus and incremental increases in all forms of debt. Temporarily supportive of growth, rising debt loads create their own headwind and eventually lead to instability. That is in fact what we appear to be witnessing. The optimists will say that recent underperformance sets the stage for a terrific buying opportunity and that may well be, but value investors are more discerning. The hiccup in performance in the fourth quarter is likely a harbinger of more difficulties to come as China, Europe, Australia and Japan all demonstrate weakening trends in growth and troubling strains from imprudent debt accumulation. It is important to note that approximately 40% of U.S. corporate earnings come from foreign sales. The United States may soon face similar issues given the sensitivity of our economy to high and rising debt. To the extent that the Fed has properly chosen to wean our economic decision-making off of crisis-era policies, albeit belatedly, those assets that have been the biggest beneficiaries of such policies should also brace to bear the burden of their removal. What we are beginning to see is the lagged effects of higher interest rates and less artificial liquidity as a result - the tightening of financial conditions. The ?tell? has been the Treasury yield curve. Using the spread between 2-year and 10-year Treasury yields, 2018 provided many



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Higher risk

investment credit is likely to languish for quite some time or at least until the trajectory of the economy becomes clearer. As revealed by high yield bond performance and the direction of interest rates, the trends of 2018 are clear. Our prior guidance of moving up in to higher quality credit and into safer categories of the fixed income markets still holds. *All data courtesy Barclays*