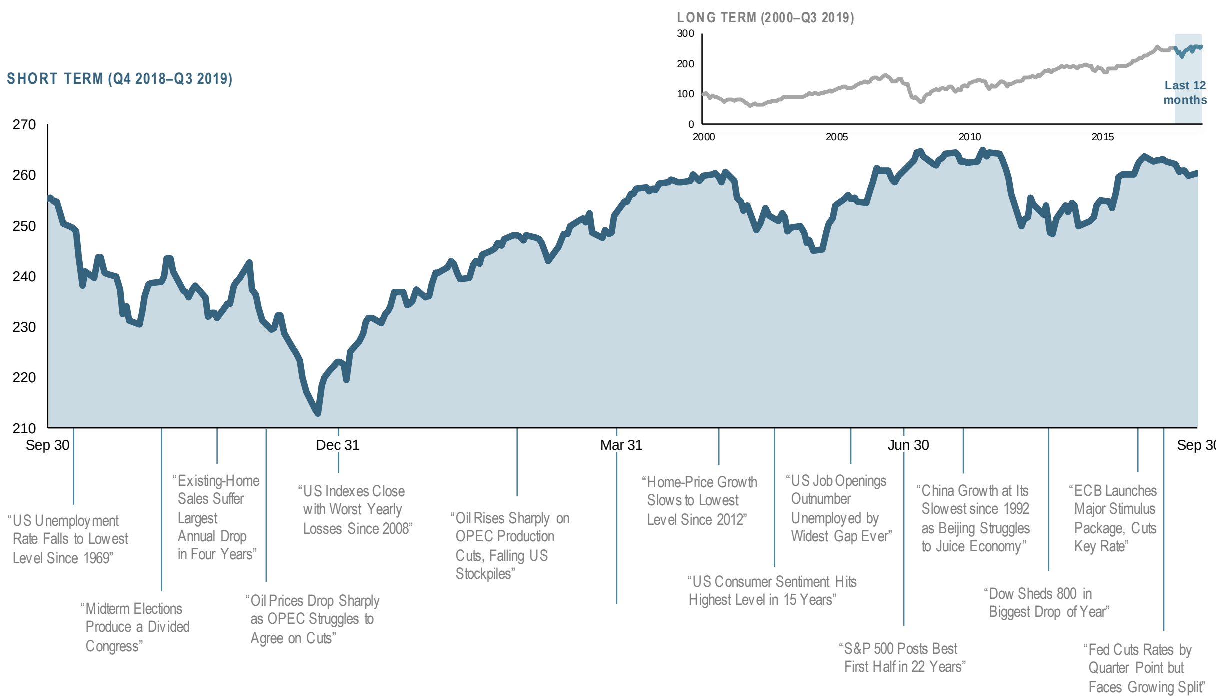
December 2019

Dear Friends,

Merry Christmas, Happy Hanukkah, and Seasons Greetings to you and your families!

As we look forward to the New Year, we would like to take this opportunity to reflect upon some of the events of 2019, discuss our outlook for the year ahead, and offer some words of perennial wisdom on portfolio allocation and prudent investment stewardship.



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2019, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Another Year of Unpredictability

This year served up many examples of the unpredictability of markets. We entered 2019, coming off the worst US stock market performance since 2008. By December 2018, US unemployment had fallen to the lowest level since 1969, yet Eurozone growth began to stutter, the US had entered into a trade-war with China, mid-term elections produced a divided Congress, US home sales had suffered their largest annual drop in four years, oil prices fell sharply as OPEC struggled to agree on cuts, and the Fed had raised interest rates three times. As a result, forecasts for 2019 S&P500 earnings growth fell from 10% as of 4Q 2018 to 6.8% by the start of this year, and equity returns were expected to be muted. Additionally, bond prices were expected to depreciate, as the market was implying additional rate hikes this calendar year. Yet beginning in July of this year, US policy makers chose to stimulate the economy instead, putting us on a course that ultimately reversed all of the previous year's interest rate cuts, as concerns arose around slowing growth from the ongoing trade war. American consumers' confidence weakened as the year began[1], and news headlines broadcast fears of an economic slowdown. But investors who moved onto the sidelines may have missed the gains in the US stock market. As of the end of November, the S&P 500 was up more than 20% for the year on a total-return basis. That puts it on course for the best showing since 2013 should that gain hold through December.

Outside the US, Greece—the site of an economic crisis so dire some expected the country to abandon the euro earlier this decade, and a country whose equity market lost more than a third of its value last year—has had one of the most robust stock market performances among emerging economies in 2019. On top of that, Greece issued bonds at a negative nominal yield, which means investors paid for the privilege of lending the government cash.

Taken as a whole, it's a reminder that the prediction game can be a losing one for investors.
A closer look at interest rates and the bond market shows just how unpredictable asset performance can be. Going into 2019, Federal Reserve officials expected economic conditions to support raising a key interest rate benchmark twice. Instead, policy makers lowered it three times.

In the market for US Treasuries—where market participants set interest rates—the yield curve that tracks Treasuries inverted for the first time in more than 10 years, as seen in **Exhibit 1**. Some long-term yields fell below some short-term yields over the summer. What's more, yields on medium- and long-term bonds were at historically low levels at the start of the year, but they fell even lower by the end of October. Investors who made moves based on the expectation yields would rise in 2019 may have been disappointed in how events ultimately transpired.

EXHIBIT 1

Source: ICE BofAML fair value government spot yield. ICE BofAML index data © 2019 ICE Data Indices, LLC.

[1] Based on readings from the Conference Board Consumer Confidence Survey and the University of Michigan Index of Consumer Sentiment.

Events weren't any easier to anticipate in the global equity markets, where no evident link appears between markets that performed well last year and those that have excelled this year, as **Exhibit 2** shows.

Among the 23 developed market countries[2], only one country was a Top 5 performer for 2018 and 2019: the US. Last year's strongest performing market— Finland—ranked 22nd this year through the end of October. Among emerging markets, Greece swung from a 37% decline last year to a 37% advance this year through the end of October.

EXHIBIT 2

Developed Economies

2018		2019 YTD	
Finland	−3.43%	Switzerland	25.19%
New Zealand	−3.97%	Netherlands	24.45%
USA	−5.04%	Ireland	24.37%
Israel	−5.48%	Italy	23.22%
Hong Kong	−7.83%	USA	22.67%
Norway	−8.63%	Canada	21.30%
Switzerland	−9.08%	France	20.05%
Singapore	−9.41%	New Zealand	20.02%
Portugal	−11.09%	Australia	19.92%
Australia	−11.99%	Portugal	19.08%
France	−12.76%	Denmark	17.74%
Japan	−12.88%	Japan	16.51%
Netherlands	−13.11%	Germany	16.40%
Sweden	−13.68%	Belgium	15.61%
United Kingdom	−14.15%	Sweden	14.65%
Denmark	−15.43%	United Kingdom	13.18%
Spain	−16.19%	Austria	13.08%
Canada	−17.20%	Singapore	12.84%
Italy	−17.75%	Spain	7.99%
Germany	−22.17%	Hong Kong	7.67%
Ireland	−25.31%	Israel	6.15%
Belgium	−26.93%	Finland	6.11%
Austria	−27.44%	Norway	5.13%

Emerging Economies

2018		2019 YTD	
Qatar	29.84%	Russia	40.37%
Peru	1.56%	Egypt	39.29%
Russia	−0.39%	Greece	36.95%
Brazil	−0.49%	Taiwan	25.04%
Czech Republic	−4.45%	Colombia	22.67%
Thailand	−5.53%	Brazil	17.61%
Malaysia	−6.03%	Philippines	12.45%
Hungary	−6.12%	China	11.97%
India	−7.30%	Thailand	8.74%
UAE	−7.74%	Mexico	8.56%
Taiwan	−8.94%	Hungary	7.49%
Indonesia	−9.21%	India	6.56%
Colombia	−11.53%	UAE	5.57%
Poland	−12.87%	Indonesia	4.84%
Egypt	−14.00%	Korea	3.76%
Mexico	−15.53%	Peru	2.25%
Philippines	−16.52%	Turkey	1.96%
China	−18.88%	South Africa	0.35%
Chile	−19.65%	Czech Republic	−1.11%
Korea	−20.94%	Malaysia	−3.84%
South Africa	−24.76%	Poland	−4.13%
Pakistan	−34.79%	Qatar	−4.95%
Greece	−36.84%	Pakistan	−7.51%
Turkey	−41.40%	Chile	−15.27%

Source: MSCI country indices (net dividends) in USD for each country listed. MSCI data © MSCI 2019, all rights reserved. 2019 YTD as of 10/31/19.

Note: Emerging economies do not include Argentina and Saudi Arabia, which MSCI classified as frontier and standalone, respectively, prior to May 2019.

Perennial Wisdom

History has shown there's no compelling or dependable way to forecast stock and bond movements, and 2019 was a case in point. Neither the mainstream prognostications nor the hindsight of recent strong performance predicted outcomes in 2019.

[2] Markets designated as developed or emerging by MSCI

Rather than basing investment decisions on predictions of which way debt or equity markets are headed, a wiser strategy may be to hold a range of investments that focus on systematic and robust drivers of potential returns. Investors who were broadly diversified across asset classes and around the globe were in a position to potentially enjoy the returns that the markets delivered thus far in 2019. Last year, this year, next year—that approach is a timeless one.

2020 Outlook
As we look ahead into 2020, we continue to focus our attention on the ongoing US-China trade conflict and the global manufacturing slowdown accompanying it. This must be balanced by the continued (albeit decelerating) global expansion and strong US consumer and labor market.

Broadening our perspective, on the positive side, US unemployment is now at a 50 year low, consumer spending remains healthy, equity market valuations are reasonable (although not cheap), economic growth remains modest, wage growth is strengthening while inflation remains below Fed target levels, the Fed is expected to remain accommodative with another interest rate cut forecast for 2020, weak oil prices continue to support real consumer income, the yield curve is no longer inverted (a predictor of recession), and earnings growth is expected to reaccelerate in the year ahead, growing at a 9.7% pace.

On the other hand, Chinese GDP growth is slowing, BREXIT remains uncertain, there is record high corporate and student debt outstanding, Europe continues to require negative rates to fight their recession, the US has escalated its tariff policies, the US repo markets remain dysfunctional, and political risk domestically and abroad continues (impeachment, upcoming presidential elections, China-Hong Kong, Turkey-Syria, Iran-Saudi).

Given all of these variables, we believe the core risks to focus on are the trade war and inflation, and the impact they may have on Federal Reserve interest rate policy. As the adage goes, bull markets do not die of old age. It is most often a Federal Reserve raising rates prematurely (or too quickly) that kills them. As long as inflation remains in control, we expect the Fed to cut rates by another quarter of a point in 2020, delaying a recession to 2021 or beyond.

Additionally, we have begun to see the US, Europe and Japan making concerted efforts to enact fiscal stimulus in the form of both increased government spending and lower taxes, which has been made easier as a result of low interest rates. Given the low (and negative) rates these regions are currently implementing, fiscal stimulus could provide the most impactful boost to the 2020 economy.

Absent this fiscal stimulus, we expect modest equity gains from a globally diversified portfolio, given our expectations for a modest acceleration in earnings growth and accommodative central banks, as long as trade tensions remain muted in 2020. We would be hard pressed to believe that the President will act in a manner that will harm the economy during an election year.

Conclusion
This was a particularly exciting year for all of us here at Collective Family Office. We are very thankful for your support in launching your Multi Family Office and are humbled by the confidence you have shown in us as stewards of your families' assets. In just 6 short months, we have managed to build out a beautiful office space, we have grown the firm above our first year's expectations, and we have begun to add services beyond the traditional scope, such as Delaware, South Dakota, and Tennessee trust administration, institutional retirement planning solutions for your businesses, and access to

commercial lending. We have even more ideas we are exploring and look forward to sharing them with you in the new year.

In the interim, if you haven't had the chance to visit, we would very much enjoy hosting you at the new office and sitting down for a year-end review to discuss the need for any changes to your investment portfolio, financial plan, or estate planning strategy.

Wishing you all a happy holiday season and a healthy new year,

Brian Luster	David Sivel	Trevor Hoffman
Chief Investment Officer	Chief Executive Officer	Chief Operating Officer