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MONTIS FINANCIAL, LLC

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Quarterly

2019 Third Quarter Investment Market Report

The latest three month returns in the U.S. and international stock markets can be viewed with two very different attitudes. The first is that many indices (though not all) produced a loss for the quarter, and where there were gains, they tended to be small. On the other hand, the losses, where they occurred, were too small to wipe out the gains of the previous two quarters, meaning that most investors have still made money so far this year.

The widely-quoted S&P 500 index of large company stocks was up 1.70% in the third quarter, and is up 20.55% for the year. Small and Mid cap stocks have not fared as well.

	Quarter	YTD	1 Year	3 Years
S&P 500 Index TR	1.70	20.55	4.25	13.39
Russell 2000 TR	-2.40	14.18	-8.89	8.23
Wilshire U.S. REIT TR	7.88	27.21	18.39	7.21

Source: Morningstar Direct; See disclosures for imporant benchmark information

International investors are still hanging on to gains after a difficult quarter. The broad-based EAFE index of companies in developed foreign economies lost 1.07% in the third quarter but remains up 12.80% so far this year. Emerging market stocks of less developed countries, as represented by the EAFE EM index, lost 4.25% in dollar terms in the second quarter, but the index is still up 5.89% for the year.

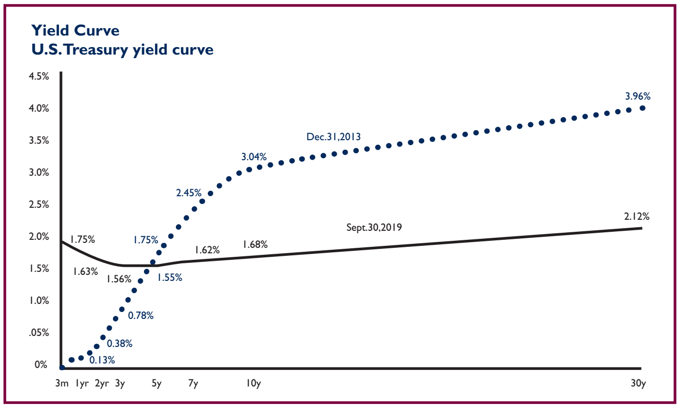
	Quarter	YTD	1 Year	3 Years
MSCI EAFE NR	-1.07	12.80	-1.34	6.48
MSCI EM NR	-4.25	5.89	-2.02	5.97

Source: Morningstar Direct; See disclosures for imporant benchmark information

Many people thought bond rates had reached rock bottom last quarter, and that the inversion of yields could not continue, but they were wrong on both counts.

	Quarter	YTD	1 Year	3 Years
Barclays U.S. Aggregate Bond TR	2.27	8.52	10.30	2.92

Source: Morningstar Direct; See disclosures for imporant benchmark information



Source FactSet, Federal Reserve, J.P. Morgan Asset Management

Coupon rates on 10-year Treasury bonds have fallen to 1.68%, while 6-month bonds are now yielding a higher (but still meagre) 1.78%.

Where will the markets go from here? Of course, nobody knows with any certainty, but that doesn't stop us from reading the tea leaves. There appears to be great uncertainty among investors about the political uncertainty in Washington, China trade tensions, drone strikes in Saudi Arabia and a messy "Brexit" across the pond. U.S. economic growth has cooled to a 2% annualized rate, and we are experiencing the first contraction in manufacturing in three and a half years. Exports have also been weak—a casualty of the China trade war.

The future of the markets is uncertain at the moment, and this uncertainty is not a reason to panic.

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At the same time, we are also experiencing the strongest labor market in several decades, with the pace of layoffs and the unemployment rate near a 50-year low. And consumer spending has been extremely strong, rising an estimated 4.6% year over year. Adjusted pretax corporate profits were up 3.8% in the second quarter (the most recent period for which we have statistics). Economists are hardly in consensus, but many predict that the economy will continue growing to the end of the year at least.

There must have been many times when the soothsayers looked at the tea leaves and didn't see a clear pattern. Maybe they were tempted to make up a plausible story – like some of the pundits in today's media. We aren't inclined to try to make up a story here. The future of the markets is uncertain at the moment, and this uncertainty is not a reason to panic. History has shown that bull markets tend to be longer and steeper than bear markets, which means that holding on tight in choppy times tends to be the winning strategy.

News of Note

THE WALL STREET JOURNAL.

Akre Focus Fund, a long-held position at Montis, was recently rewarded for its performance by *The Wall Street Journal*. The Journal's quarterly Winners' Circle ranking of top mutual-fund managers awarded their top score to the co-managers of Akre Focus Fund (AKRIX), Charles "Chuck" Akre and John Neff.

To be considered by the Journal, "managers had to be running diversified U.S.-stock funds with track records of at least three years and assets of at least $50 million for the 12-month period ended September 30. (Under the rules, no global funds, sector funds, quantitative funds or leveraged funds qualify. . . .)"

The article includes comments from Chuck and John about their process, and we recommend it as an interesting peek into the minds of two of our favorite managers. To read the entire article, look for: McGee, Suzanne. "A Silver Medal . . . for Stock Picking This Time." The Wall Street Journal 6 October 2019.

Financial Planning News

We don't generally comment on pending legislation. Too often, bills become stalled, altered or never come up for vote. That said, there is one bill in the Senate right now that is worth paying attention to because of its solid bipartisan support and impact to investors.

The SECURE Act overwhelmingly passed the U.S. House in May this year. Since then, it is awaiting action in the Senate. The bill, the Setting Every Community Up for Retirement Enhancement (SECURE) Act, includes more than 20 sections, impacting retirement savings and planning in large and small ways. In summary, the act should:

- Give more part-time workers the opportunity to participate in a 401(k)
- Allow contributions to traditional IRAs for as long as desired
- Shift the minimum distribution age from 70.5 to 72 years old
- Provide special circumstances for penalty-free withdrawals
- Require withdrawals from inherited retirement accounts within 10 years