PARKSIDE INVESTMENTS

Market Commentary

January 8, 2020

Dear Clients and Friends:

Despite very modest economic global growth both in the U.S. and abroad in 2019, most equity markets rallied strongly during the second half of the year as the Federal Reserve cut interest rates and U.S./China trade discussions improved.

As we enter 2020, we continue to hold a number of positions in a wide array of industries that stand to benefit from robust secular growth trends that are likely to continue for many years. Additionally, low interest rates should help sustain economic growth this year and provide a floor to equities.

Notwithstanding high levels of enthusiasm after last year's strong market rally, our near-term outlook is more tepid.

- The market is likely overly optimistic regarding U.S. economic growth in 2020 (current consensus expectations are for 2.5% to 3.0%)
- In addition to the obvious concerns over human lives, the heightened tensions in the Middle East open up a number of adverse scenarios, including the potential economic impact of conventional warfare, cyber-attacks, energy shortages, etc.
- U.S./China relations are likely to remain fragile/tense and we do not expect any further negotiations to generate any meaningful breakthrough.

In light of the above, actions we are taking in portfolios include:

- We are proactively adjusting portfolio allocations to eliminate cyclical companies selling near our price targets and reducing equity exposure back to target levels. Should market conditions dictate, we may reduce equity market risk even further.
- We plan on shifting some equity exposure toward specialized exchange-traded fund (ETF) investments that cap upside at 8%-10%, but also buffer the ETF from the first 13-15% of any potential market loss (i.e., giving up some upside for downside protection).
- We are tactically adding a modest allocation to a Gold exchange-traded fund, due to both our view that the U.S. Dollar is susceptible to weakness over the coming years as well as the potential risk of cyber warfare impacting financial instruments.
- We have begun to modestly add inflation-protected treasuries as we begin to see some risk of inflation or stagflation (inflation coupled with stagnate economic growth).

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The above moves do not imply that the market is unattractive, but instead represent modest adjustments after such a strong rally in 2019 (and since 2009). Finally, we have identified and are monitoring a number of companies that we anticipate will be attractive new investment positions once certain catalysts occur.

Should you have any questions about any of these comments or their impact on your portfolio, feel free to give either of us a call.

Sincerely.

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