# Investor Quarterly

## A Wall of Worry

### Markets Take the Stairs Up but the Elevator Down

Despite significant initial optimism and record corporate profits, 2018 ended on a weak note. A "wall of worry" hammered most asset prices in the 4Q18 leaving cash as one of the few out-performers. While we recognize numerous concerns (Fed actions, trade disputes, debt levels), the 4Q18 market response was disproportionate to the risks in our view.

### S&P500 Forecast & Other Key Indicators

For 2019 year-end, we believe the S&P can appreciate to 2800, or ~6% from current levels. Our EPS forecast remains unchanged at $164. We also estimate the following: GDP (2019 +2.2%), Gold ($1,250/oz), 10-yr US Bond Yield (2.8%), Oil (WTI - $60/brl), and Inflation (PCE – 1.9%).

### 4Q18 in Review

Few portfolios were left unscathed in the quarter. Numerous macro-concerns came to the fore, overwhelming what had been positive investor sentiment. Yet unlike the recent past, corporate results in Oct/Nov even when strong, weren't sufficient to assuage concerns of peak earnings and deteriorating fundamentals.

### Asset Class Performance (Total Return: 2018 and 4Q18[i])

We highlight the following: S&P500 (-4.4% and -13.8%), Gold (-1.9% and +7.7%), Bonds (+0.0% and +1.9%), Commodities (-11.6% and -19.8%). Global equity markets, including developed and emerging, sold off dramatically. Meanwhile, oil collapsed (-38.1% in 4Q18) with mixed results in fixed income.

### Rockingstone Performance

We viewed the 4Q18 sell-off as mainly technical in nature. Given our GDP forecast plus our assumption for S&P 500 earnings growth in 2019, we did not subscribe to the recession fears driving the market and hence did not hedge our positions, leading to a -12.7% decline for the quarter and -4.3% for the year. Towards 4Q18-end and with a LT focus, we added EL and more ETM and RCL to our portfolios.

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**About Us**

Rockingstone Advisors LLC is a boutique asset management and corporate advisory firm co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

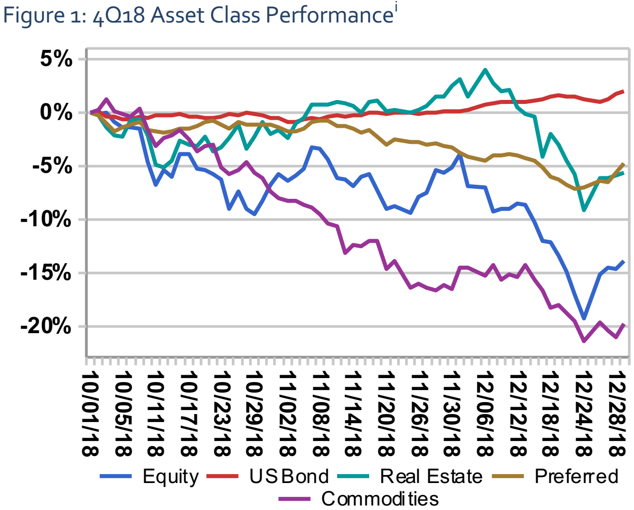
As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separate accounts.

Our investment strategies attempt to capitalize on pricing inefficiencies across broad asset classes and then across individual securities, with a strong emphasis on fundamental research and analysis.

Thank you for your interest. You can find more information (and some interesting articles) at:

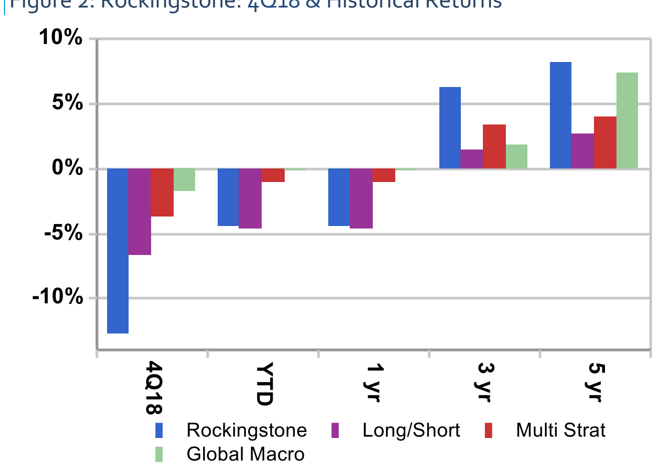
*www.rockingstoneadvisors.com*

Figure 1: 4Q18 Asset Class Performance[i]




*Source: FactSet*

Figure 2: Rockingstone: 4Q18 & Historical Returns[ii]




*Source: Rockingstone Advisors, Morningstar, DJ Credit Suisse Indices*



***Please see our End Notes and Disclosures (pages 25-26 of this Investor Quarterly) for important information regarding performance measures. Form ADV available upon request.***

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# Asset Class Performance Review

## A Wall of Worry

Last quarter our newsletter focused on the global divergence across various markets, including strong YTD price performance in the US vs. weak trends in other developed and emerging markets. Our view at the time was that solid US quarterly earnings, relatively low interest rates, combined with high levels of consumer confidence would continue to help US equity performance and possibly lift inexpensive non-US markets. Unfortunately, a "wall of worry" over largely macro-developments, coupled with deteriorating market technicals, overwhelmed our positive outlook and that of most investors in 4Q18. Volatility jumped in December 2018 with less liquidity exacerbating price swings.

In our communications to clients, we highlighted our view that the market moves in 4Q18 were, in our opinion, more of a technical correction than fundamentally driven. Recall the initial catalyst of the sell-off back in September 2018 was that the economy was too strong, interest rates were rising too fast (the 10-year Treasury peaked at 3.2%), and higher rates risked drawing capital from stocks into bonds given the latter's higher yields. In the early stages of the 4Q18, we saw some selling, and similar to the way up, once stocks break certain technical levels on the way down, the technical breach begets even more selling.

It is as painful a process on the way down as it is a pleasurable process on the way up, except that stocks "take the stairs up and the elevator down," so the downside is almost always more rapid than the upswing. As stocks fall, the narrative often changes. Specifically, we note that in Sept 2018 consensus reflected an economy that was overheating. That quickly changed to the current consensus of an economy that is racked by global growth concerns, trade issues, a flattening yield curve, political dysfunction, and a disconnected Fed. Many of these issues have been around for the last few years, but sell-offs, by their nature, always enhance investors' fears and elicit the worst from the main stream and business media, which hype "Dow 6000!" links as click bait.

Meanwhile, a look at underlying economic fundamentals makes it very hard for us to believe a sharp slowdown is in the cards for 2019. In fact, the Atlanta Fed's GDP outlook improved last month from 2.3% to 2.9%; so too has the Index of Leading Economic Indicators, which was up in November after being down in October. The yield curve is flatter, but the most predictive part of the yield curve is the 10-2 and 10-1 spread (i.e. the difference between the 10-year bond and its 1 or 2-year counterpart) and that's not inverted; spreads on riskier bonds are heightened but not anywhere close to levels that would worry us. Meanwhile lower energy and gas prices lessen inflationary pressures and put real money back into the pockets of consumers. Thus when we look across the macro landscape, and also listen to what the companies who reported (Paychex, Accenture, Nike) are saying, we believed selling stock or adding downside protection during the quarter did not make sense.

Moreover, it is important to remember that market corrections are normal and healthy. On average, stocks decline about 10% roughly 2.27 times per year, and they decline approximately 20% every 0.73 years. But like diet and exercise, what we know is necessarily good for us isn't always enjoyable. And we know that markets generally rise over a long period.

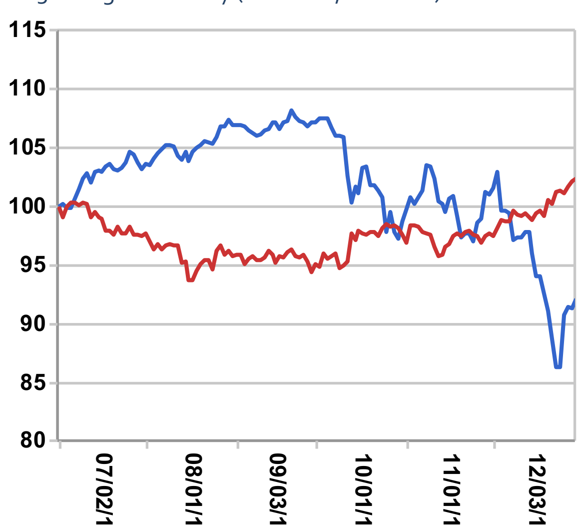
While "a long period" seems like a while to wait, on average stocks generally rebound reasonably quickly. The average "pullback" (defined as -5% to -9.9%) lasts about a month and takes two months to recover. The average "correction" (-10% to -19.9%) lasts about five months and takes four months to recover. The average "bear" market (-20% to 39%) lasts about 11 months and takes 14 months to recover. And the "ugly bear" (-40% - plus) lasts 23 months and takes 58 months to recover.

Early in the year we sold our Wynn shares, and this summer, we sold half of our Amazon while Syntel and Aetna were acquired; these sales resulted in material realized gains. Given the market decline, we did realize some losses in the quarter to offset gains, but nothing more.

While some companies we own have indeed reported mixed results, the bulk of Rockingstone's investments appear healthy with very attractive valuations. We added in select spots to either new companies (Estee Lauder) or existing holdings (ETM) that we think are great businesses and relatively immune to some of the factors putting pressure on certain sectors.

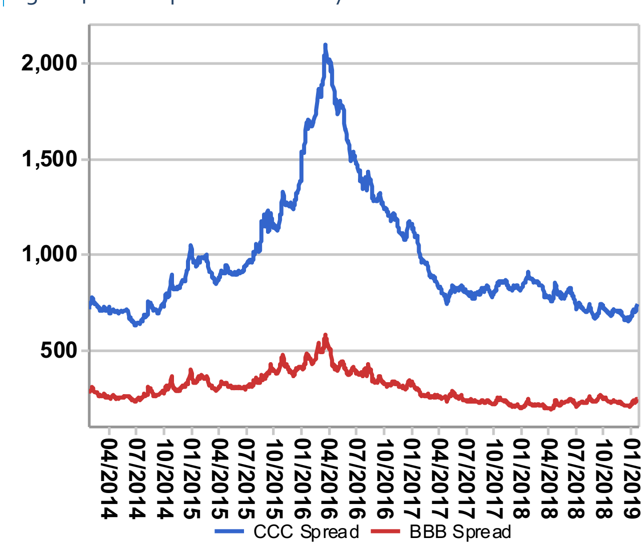
As we enter the first quarter, we generally expect S&P earnings growth in 2019 to be in the low, mid-single digits and GDP to be roughly 2.2%; nothing exciting but limited likelihood of a recession. This forecast considers that several of the issues concerning investors continue to persist in 2019, but don't necessarily deteriorate. Those issues include: (i) slowing global growth, (ii) central banks that are less accommodative, (iii) trade disputes, (iv) high debt levels around the world, and (v) political paralysis in numerous countries and/or regions. We will examine a number of these issues in this newsletter but the quick 4Q18 flight to safety is evident in Figure 3 which contrasts the S&P500 vs. Gold performance.

Figure 3: A Flight to Safety (SPY-blue, Gold-red)




Source: FactSet.

Figure 4: Bond Spreads: Relatively Stable




Source: FactSet.

Regarding the above listed concerns, we are not naïve to the issues confronting financial markets. But we would emphasize the following:

1. Slowing Global Growth. To be sure China, the second largest economy, is slowing. Published growth rates of 7-8% a few years ago have decelerated to 6% or less. Clearly investors are concerned that slower growth, coupled with significant leverage across China's economy and an ongoing trade disputes with the US, could result in larger than expected deceleration in GDP growth. But such

growth is still well above the EU, Japan and even a stronger US economy. With an emphasis on the long term, we believe China will continue to grow, emerging markets such as Latin America should rebound and developed markets including the US are attractively priced.

2. Central Banks. As is well known since the global financial crisis in 2008, central banks around the globe have been incredibly accommodative. Starting in 2016 and continuing throughout 2018, the US Federal Reserve became more restrictive. Looking at employment figures and capacity utilization, we believe this is a rational and prudent approach, including reducing the Fed's balance sheet. The ECB has indicated it will stop its own quantitative easing and look to raise interest rates in 2019. We think such steps are ultimately healthier for investors as "market driven" interest rates will allow for a truer pricing of assets via realistic discounting of future cash flows. That said, the Fed has recently announced a willingness to "wait and see" how some of the current headwinds (government shutdown, trade, international weakness) affect the US economy before continuing to raise short-term rates.

3. Trade Disputes. While investors were bullish on US tax reform, the market is clearly concerned by the arbitrary use of tariffs and by the potential for slower growth due to trade disputes. From an economic theory standpoint, free trade allows for increased efficiency and comparative advantages to play out in the marketplace. The use of tariffs reduces such efficiency and essentially imposes a tax, i.e. higher steel tariffs will result in a pass through of higher costs in the form of pricing. Ultimately, we believe leaders (EU vs. UK, US vs. China, US vs. EU) will see the value of not allowing disputes to last too long and faith will be restored in the post WWII global trading system (along with mechanisms such as the WTO to resolve disputes).

4. Debt Levels. Based on a recent analysis published in the WSJ (Jan 2, 2019), global debt is now approaching $250 trillion. The same analysis suggests that debt as a percentage of global GDP is approaching 320%. A lot of the growth in outstanding debt has come from Asia, as well as emerging markets that borrowed heavily in dollar-denominated debt. While less transparent, China's private and quasi-private sectors have loaded up on debt over the last decade. Of all the concerns noted in this section, we are most worried over debt levels. Even the US, which currently is running a $1 trillion Federal budget deficit (in addition to the $20+ trillion in outstanding government debt), doesn't seem to have the political will or broad-based public concern to address the issue. To be sure increasing debt can be a signal of a strong economy as lenders extend credit to borrowers that see opportunity. Yet we know that numerous equity bear markets have been caused by a decline in liquidity and widening credit spreads. Once a debt crisis occurs, it is generally too late to deal with it.

5. Political Paralysis. While investors seem to be fretting over political acrimony and paralysis in DC, history suggests that a split US government is often positive for market returns. This is a function of less change occurring, which is typically viewed by investors as reducing the chance for negative surprises. To the extent some bipartisan legislation can be passed (infrastructure) and select trade issues resolved, we would view this as a positive. While the US corporate tax cut was supposed to spur a jump in capital spending, so far Boards have largely approved higher share repurchases and dividends. Our sense is that CEOs and CFOs have been reluctant to invest long term capital given so many global trade relationships are under review.

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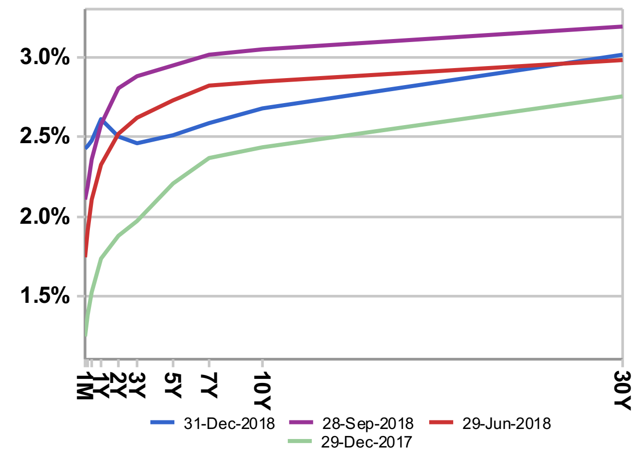
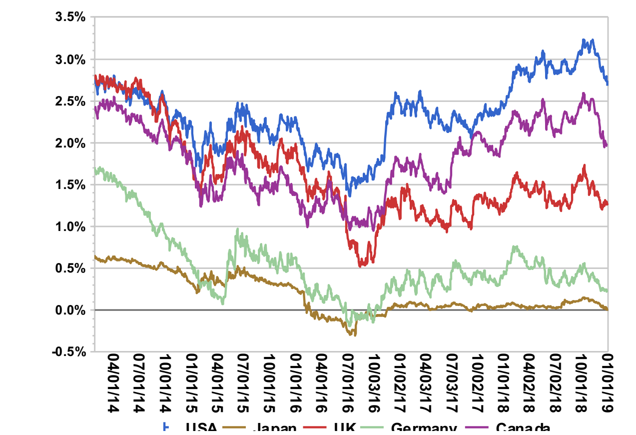
Figure 5: U.S. Yield Curve




*Source: Factset*

Figure 6: Global Sovereign Yields

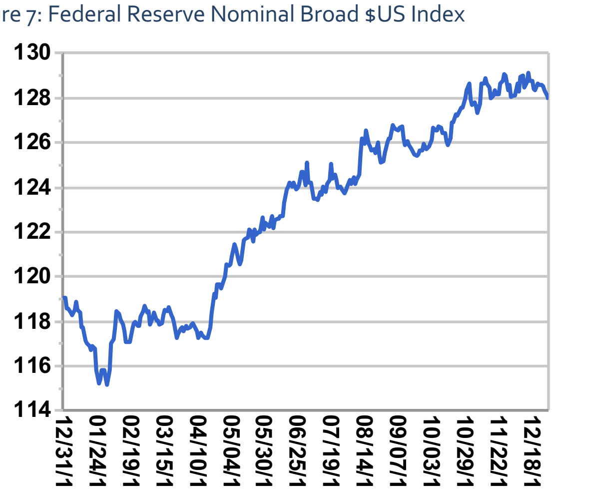



*Source: Factset*

Meanwhile, parts of the yield curve have been sending mixed signals, helping to contribute to the poor performance in equities and heightening investor fears toward the end of 2018. We note that while yields (see Figure 5) along most of the curve are above a year ago, the shape of the curve is flatter and yields have dropped noticeably since Sept-end 2018. The curve is also "kinked," whereby 1-year yields are above 2- and 3-year yields. While flatter than a year ago, the differential between the yields of 10s-2s and 10s-1s (mentioned previously) is still positive, and frankly we have seen some steepening of the curve since year end. We believe that this trend should continue in 2019, albeit modestly, due to (i) low single-digit GDP growth in the US, (ii) government borrowing to fund the US Federal deficit and (iii) unwinding of the Fed's balance sheet.

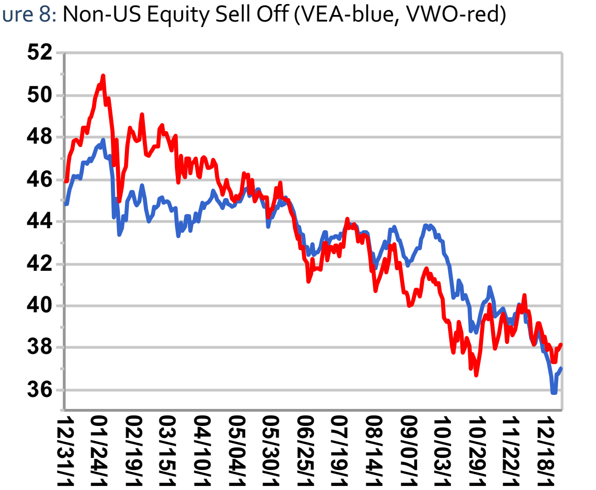
Although fixed income performed relatively well in 4Q18, we remain under-weight given our view on yields (which are inversely related to price). As has been the case for a while, we are also bearish on non-US developed market bonds. In Figure 6 we emphasize the surprisingly low relative yields in countries such as the UK vs. the US.

Figure 7: Federal Reserve Nominal Broad $US Index




*Source: FactSet, Federal Reserve*

Figure 8: Non-US Equity Sell Off (VEA-blue, VWO-red)




*Source: FactSet*

As the Federal Reserve has raised short term rates over the last 2 years, the $US has strengthened (see Figure 7). Combined with relatively strong US GDP growth and weaker EM GDP results, this has pressured non-US equities (see Figure 8). We believe the $US is likely to pause at best and possibly depreciate in coming quarters. This should help non-US equity performance which is one reason we still have exposure to these markets, coupled with ongoing attractive valuations, despite slower growth.

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# Equity Performance

## No Place to Hide

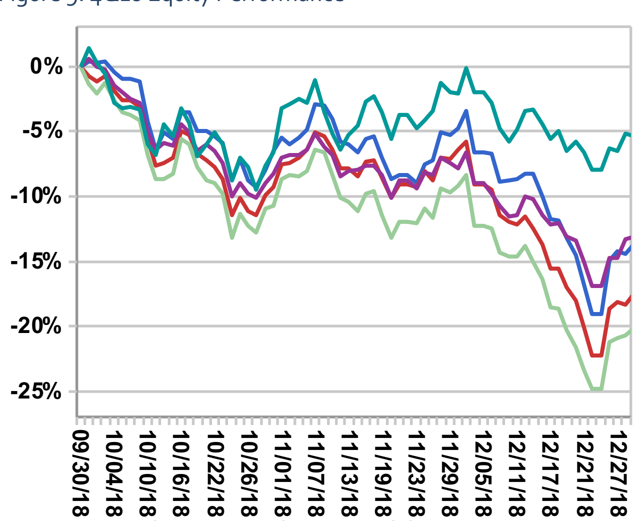
As evidenced by Figure 9 and Figure 10 below, investors holding equities during 2018 found no place to hide by the end of the year. Every major geographic region we keep track of had negative returns for the quarter and the full year. The "wall of worry" mentioned earlier in this report certainly explains some of the pressure on valuation multiples.

Yet we would be remiss in not emphasizing, as noted previously, our view that technical factors played an important role in the steep 4Q18 sell off. Over the last few years, the move from active to passive investing has been significant. Estimates now are that close to half of all US equity investments are allocated to passive strategies (i.e. ETFs and index mutual funds). Most of this change in the market has occurred during an extended bull cycle since 2009. In addition, quantitative trading strategies with algorithms that use high speed trading have become much more influential in the market.

While some companies disappointed in terms of earnings, we also note that well run firms such as NFLX and MSFT had very strong 3Q18 results, yet their stocks fell precipitously with the market as investors perceived those results as unsustainable. With investors concerned over macro-economic factors and the Fed withdrawing liquidity, we wonder if the downdraft wasn't exacerbated by so much passive and quantitative investing.

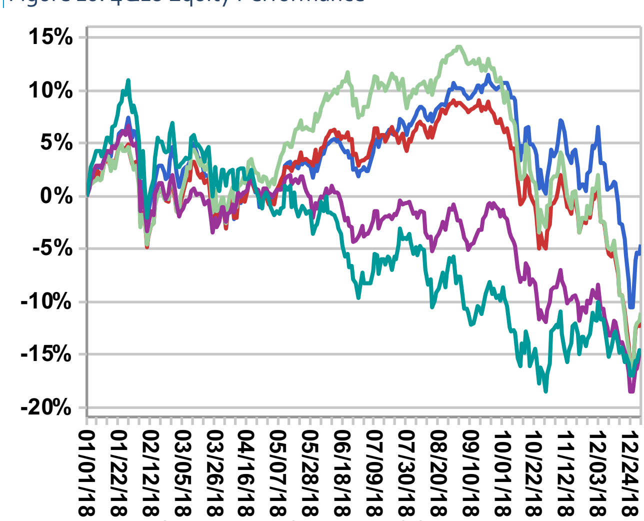
We note the following performance metrics regarding the 4Q18 and full year 2018: US Large Cap (-13.8% and -4.4% respectively), US Mid Cap (-16.6% and -12.1%), US Small Cap (-20.5% and -12.0%), Developed (-13.0% and -16.0%), Emerging (-5.1% and -15.5%). We note that US Small Cap officially entered a "bear market" given its 20%-plus decline from peak; an event we last witnessed in 2014-15.

Figure 9: 4Q18 Equity Performance [iii]




Source: FactSet

Figure 10: 4Q18 Equity Performance




Source: FactSet

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# Fixed Income Performance

## A Relative Haven Over the Short Term

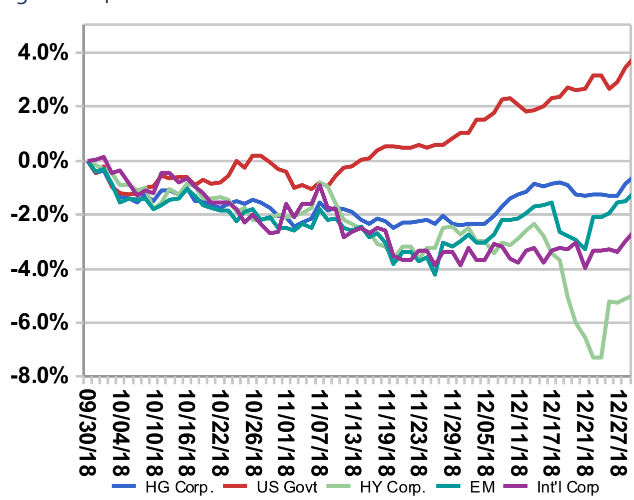
One need not look beyond Figure 11 below to recognize the flight to quality by investors last quarter! All major geographic segments declined for equities (see the prior section) and every fixed income segment except US Treasuries declined in value during the 4Q18. During times of market disintermediation, it is expected that US Treasuries will outperform given most consider it a "risk free" investment.

But we remain cautious on most fixed income investments. None other than JP Morgan CEO Dimon noted during the 4Q18 that a "bubble" exists within fixed income. This makes sense to us when one considers that an investor is being compensated just 2.7% a year to hold 10-year US Treasuries. Such a yield basically offsets inflation, thus guaranteeing almost no real return!

Furthermore, we expect that US government deficit spending and the Fed balance sheet unwinding will eventually push long term yields higher. Before the observed flight to quality midway through the 4Q18, we would argue such a dynamic was playing out with most fixed income returns negative.

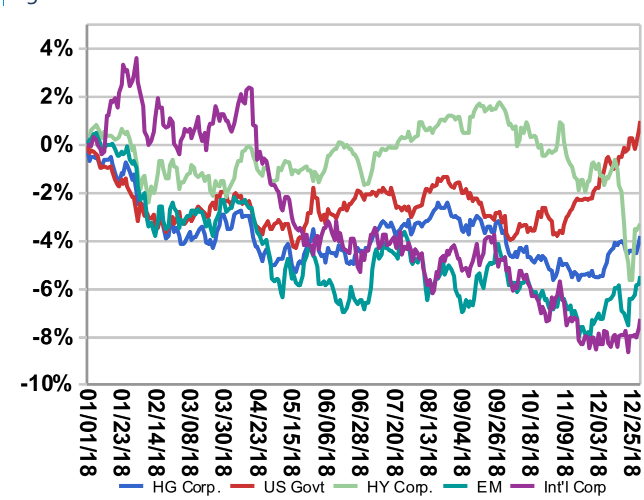
We note the following performance figures: US High Grade (4Q18 -0.6% and 2018 -3.9%), US Governments (+3.8% and +1.0%), US High Yields (-5.2% and -3.1%), International Corporates (-2.9% and -7.2%), Emerging Markets (-1.2% and -5.8%).

Figure 11: 4Q18 Fixed Income Performance[iv]




Source: FactSet

Figure 12: 2018 Fixed Income Performance




Source: FactSet

# Commodity Performance

## Oil: From A Gusher to A Dry Well

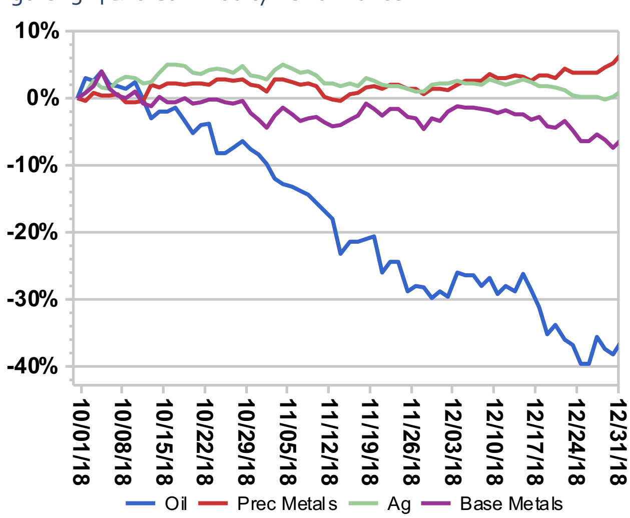
There is a good reason individual investors should generally avoid volatile commodities via futures. One need only review what happened to oil (via the ETF DBO) this year. For the first nine months of 2018, Oil jumped 35%+ as OPEC managed supply growth. Yet this quickly came to a halt as concerns about demand, i.e. global growth, overwhelmed and DBO dropped close to 50% during the 4Q18.

It is tough to draw conclusions from commodity prices at any given time. Most assets can be valued by discounting future cash flows. But an asset like gold doesn't generate any intrinsic cash flow and thus deciding what is the correct value is a challenge. Similarly, when we look at how DBO traded in 2018, it is hard to believe in the efficient market hypothesis! In other words, how is the market efficient if the supply vs. demand outlook changes so dramatically that within three months oil is worth half of what it was quoted previously.

It is also interesting to note how most other commodities were not nearly as volatile. Base and precious metals along with agriculture generally tracked one another in a fairly narrow band during 2018. With our view that inflation is likely to remain muted, we don't see a reason to over-weight commodities. For now, we maintain some exposure via a few ETFs as well as select energy-related names such as EOG and CLR.

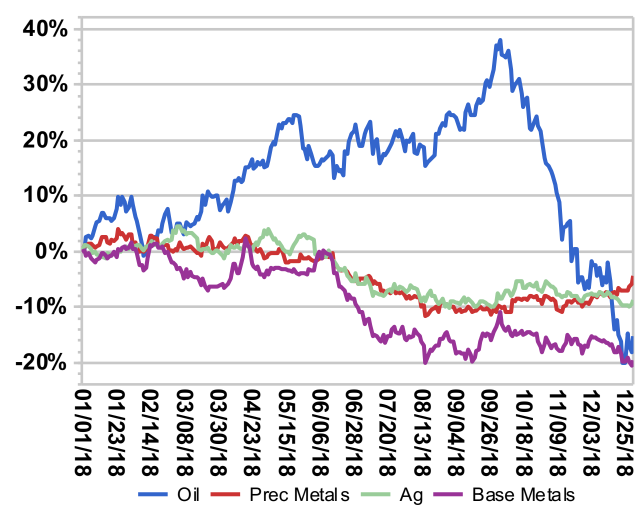
We track commodity trends via specific ETFs (which are the basis for the graphs below). As a reminder, Rockingstone will use such ETFs as the most likely way to have exposure to the asset class. We note the following returns during the 4Q18 and 2018, respectively: Oil (-38.0% and -15.2%), Precious Metals (+7.3% and -4.3%), Agriculture (+0.4% and -8.7%), Base Metals (-6.8% and -19.5%).

Figure 13: 4Q18 Commodity Performance[v]




Source: FactSet

Figure 14: 2018 Commodity Performance




Source: FactSet

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# Forecast: 2019

## Rockingstone Advisors' Latest Forecasts

While forecasting the future is always difficult, it seems like this moment in time is more complex than usual. On the one hand, the US economy is growing decently with high levels of employment, strong consumer confidence and some real wage growth. Yet business-related spending is more tempered and if the political gridlock in Washington DC persists, it could have an impact on GDP. We also note the tough 2019 comp vs. a robust, deficit and tax-aided GDP jump in 2018.

Meanwhile the second largest economy, China, is witnessing decelerating growth due to a combination of trade concerns and tightening lending, which has starved private businesses of capital. Given the lack of clarity around China's leverage, especially to state-owned entities (SOEs), a consumer that appears to be pulling back and obvious influence by government bureaucrats, it is tough to estimate what will be the new normal for China GDP growth. With both the US and China slowing in 2019, this has obvious implications for trading partners, whether it is the EU or individual emerging markets.

We note that our 2019 EPS forecast for the S&P has been consistently below consensus although post-4Q18 markets, the consensus has indeed come down. Based on 3Q18 results and early indications for 4Q18 EPS, our S&P 500 forecast of $164 remains unchanged, while the consensus forecast, which was originally $176 at the time we published our forecast, has now come down to $169. Our current estimate implies about 6% EPS growth in 2019.

Figure 15: Key Metric Forecast

| | Year End December | |
|---|---|---|
| Metric | Band | Point |
| US Real GDP (2019) | 2.0% - 2.4% | 2.2% |
| S&P 500 2018 EPS (RSA/Street) | NA | $155 / $157 |
| S&P 500 2019 EPS (RSA/Street) | NA | $164 / $169 |
| S&P 500 2019 Index | 2700 - 3000 | 2800 |
| 10-Yr US Treasury Yield | 2.6% - 3.0% | 2.8% |
| Oil (WTI-2019 End) | $55 - $70 | $60 |
| Gold (2019 End) | $1,200 - $1,300 | $1,250 |
| Inflation (NTM) | 1.8% - 2.0% | 1.9% |

*Source: Rockingstone Advisors, The Economist, Standard and Poor's, NYSE Arca, St. Louis Federal Reserve*

A few observations and comments:

1. S&P500 Index. As this newsletter goes to print, the S&P500 is trading at approximately 17x our 2018 EPS forecast of $155. Based on our 2019 EPS forecast of $164, we estimate the Index should trade up to around 2800 by the end of this year (implying 6% appreciation over the next 11 months, and total 2019 appreciation of 12%). With EPS up 6%, slightly below the long-term average, we believe the market's multiple can remain roughly flat. Our assumption for no contraction in the multiple is driven by two factors: (1) expectations for limited rate increases from current levels, and (2) higher confidence in the earnings outlook for 2019, which is currently constrained by fears of a global slowdown.

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# Five Year Asset Value Forecast[vi]

## Equity Returns Look Attractive Given 4Q18 Sell Off

As usual we detail below our five-year asset value forecast. Return expectations are higher from the prior quarter, due to a combination of solid sales growth, decent yields, benefit from improved valuation, offset slightly by lower margins. Typical to our approach, we assume asset values mean-revert (with respect to margins and P/E multiples) over time.

Figure 16: Five-Year Total Equity Return Calculations (Incremental Contribution)

| Asset | Index | LT Growth | | Sales | | Profit Margin | | Div.Yield | | Valuation |
|---|---|---|---|---|---|---|---|---|---|---|
| US Large Cap Stock | S&P500 | 7.8% | = | 5.6% | - | 0.4% | + | 2.2% | + | 0.4% |
| US Mid Cap Stock | S&P400 | 9.2% | = | 5.8% | - | 0.1% | + | 1.9% | + | 1.7% |
| US Small Cap Stock | S&P600 | 8.0% | = | 5.9% | - | 0.1% | + | 2.0% | + | 0.3% |
| Foreign DM Stock | MSCI-EAFE | 8.2% | = | 3.8% | - | 0.2% | + | 3.7% | + | 0.9% |
| Foreign EM Stock | MSCI-EM | 9.3% | = | 5.9% | + | 0.0% | + | 3.2% | + | 0.2% |

*Source: Rockingstone Advisors*

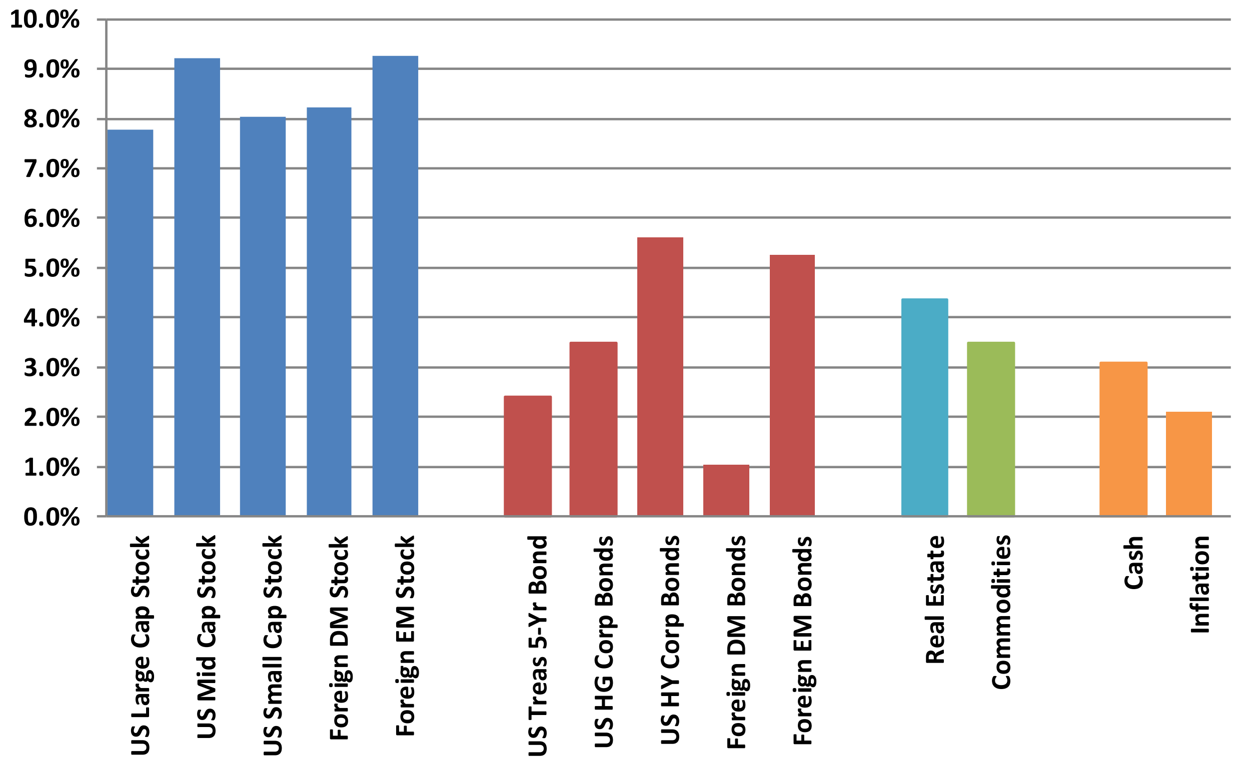
For equities, we examine key variables such as (1) historical sales growth, (2) corporate profit margins, (3) dividend yields, and (4) valuation to determine potential long-term returns. Using valuation as an example, P/Es should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

In contrast to the past few years, and due mainly to the recent market correction coupled with strong earnings growth, valuation now should be a broad-based positive contributor to our forecasted returns. In the past we have noted the "valuation" component to our calculation was negative to incremental returns as P/E multiples mean reverted down to historical levels. However most of the major indices are currently trading at a discount to their long-term average multiple, which is notable given that interest rates are materially below their historical average. Dividend yield is also a key input and can be assumed relatively stable long term. Currently, dividend yields are now above their historical averages for most indices.

Based on our outlook for total returns, we expect the "give" of sales growth, valuation and dividends to be partly offset by the "take" of mean-reverting margins. We expect sales growth to be relatively close to long term average performance. As has been the case for a while, profit margins are high vs. history but we don't see significant pressure (due to ongoing productivity and cost reduction measures) in the next few years.

In fixed income (see the next page for various assumptions), we expect the "give" of coupons will be exceeded by the "take" of mean-reverting inflation and real rates, both of which are below their historical mean. Of course, short-term returns may not necessarily match our longer-term return predictions; markets are significantly more random over the short-run than the long-run.

Figure 17: Five-Year Asset Class Total Return Forecast




*Source: Rockingstone Advisors*

# Portfolio Positioning

## Equities

As noted earlier, we continue to believe that equities remain attractive on a risk-adjusted basis for the long term. While we sold various investments during the 4Q18 for reasons related to tax efficiency, our long-term oriented focus is to add to or start positions during market disintermediation.

We made few changes to our sector / geographic allocation and thus are now over-weight Industrials, Energy, and Consumer Cyclicals, and under-weight Utilities and Communication Services. This allocation unfortunately hurt performance as did our over-weight positions in Developed Market and Emerging Market ETFs.

Our top ten largest individual holdings include: S&P Global, McCormick, Evolent Health, Amazon, Estee Lauder, Apple, Google, Intuitive Surgical, Appian, and Fleetcor. Looking beyond tax related moves, during the 4Q18 we added Estee Lauder (EL) to our holdings, increased our position in Entercom (ETM) and Royal Caribbean (RCL) while converting our Aetna position into CVS (post the merger between the two).

## Fixed Income

We have been under-weight fixed income across almost all portfolios and continue to believe this is the correct positioning. While 4Q18 was a move away from risk, and fixed income relatively out-performed, we still see downside price risk in most debt securities. Until the 4Q18, our cautious view proved prescient. Despite the flight to safety at year's end, we are content with an under-weight position in long-term bonds given concerns around the Federal Reserve rate increases on the short end to the long-term impact of the Fed's $4+ trillion balance sheet unwind, not to mention rising deficits and massive unfunded Federal liabilities.

Nevertheless, we still have select, modest positions in high grade corporates (ticker LQD), high yield ETFs (such as HYD), and through actively managed ETFs such as DoubleLine (TOTL). But the bulk of our fixed income exposure is in relatively short-term bonds and ETFs (JPST). Our short position in International bonds (for those accounts that allow short positions) via the BNDX ETF remains an investment across most portfolios. As noted earlier, this is a long-term oriented position to exploit what we view as yields that are simply too low in Europe.

While we sold some preferred securities (via the PFF ETF) to recognize losses for tax purposes, our view is that PFF still offers an attractive 6% yield. With most banks' capital positions very strong and the Fed allowing them to return capital to shareholders, we view this dynamic as a positive to PFF. Hence, we expect to repurchase PFF for most accounts once the 30 day washed sale rule is past.

## Commodities

We maintain very small positions in commodity ETFs. Rockingstone's holdings include modest positions in precious metals (gold and silver). As has been the case for some time, these positions are through ETFs, with gold being an inflation hedge and (for select portfolios) yield producing via covered call writing. We acknowledge there doesn't appear to be much inflation on the horizon.

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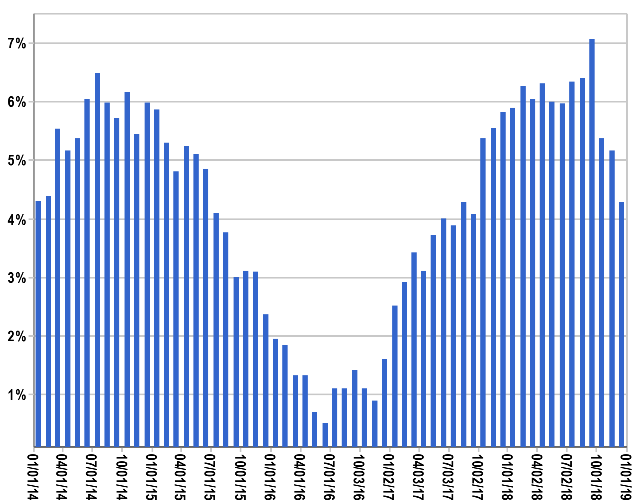
# Chart Book

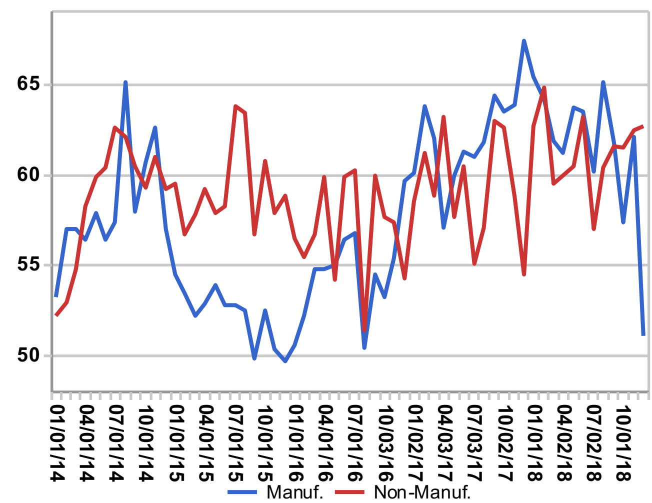
## Leading Indicators

### Figure 18: Index of Leading Economic Indicators



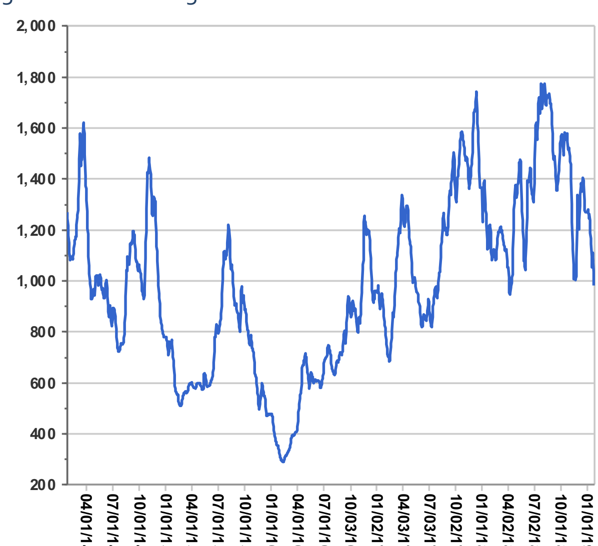

*Source: FactSet*

### Figure 19: ISM New Orders



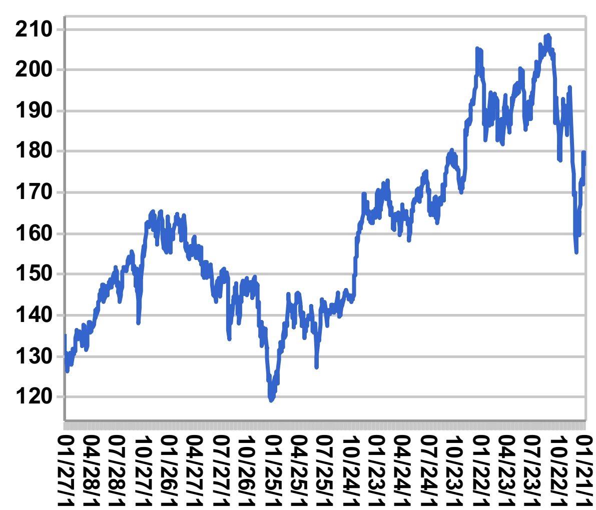

*Source: St. Louis Federal Reserve, FRED Database*

### Figure 20: Baltic Freight Index




*Source: FactSet*

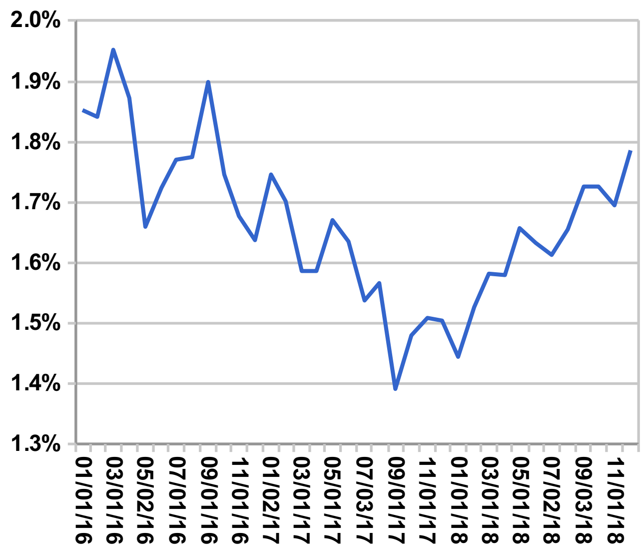
### Figure 21: DJ Transports




*Source: FactSet*

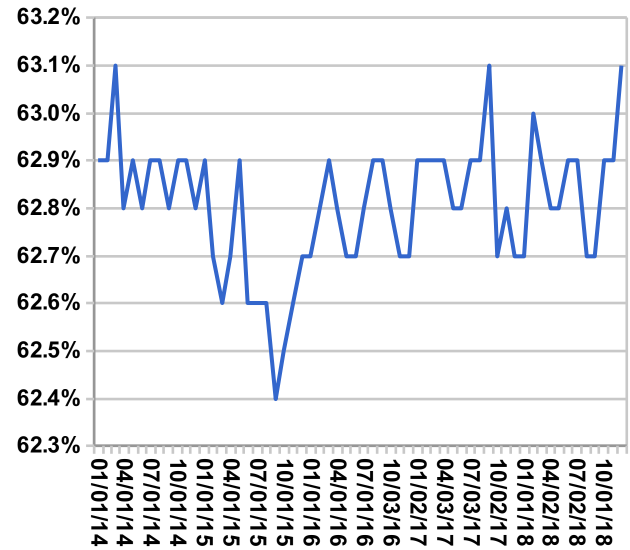
## Labor Market Indicators

Figure 22: Payroll Growth (Establishment Survey, % Chg YoY)



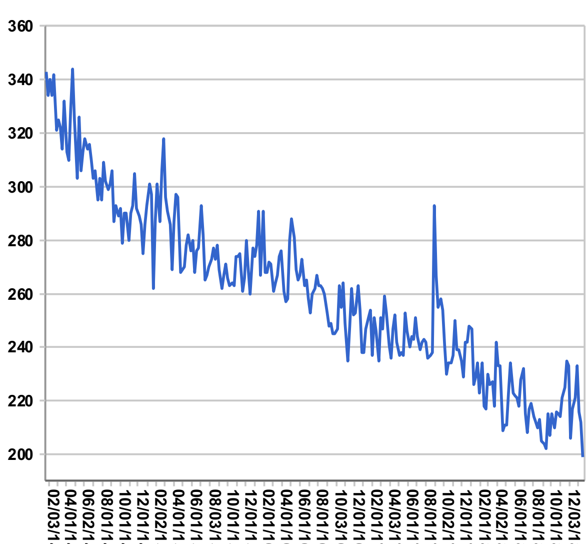

Source: FactSet

Figure 23: Labor Participation Rate (% of Workforce)



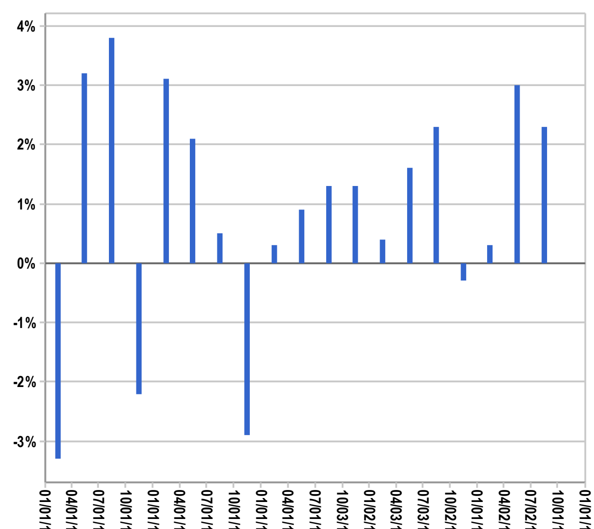

Source: FactSet

Figure 24: Initial Unemployment Claims




Source: FactSet

Figure 25: Non-Farm Productivity (% Chg YoY)




Source: FactSet

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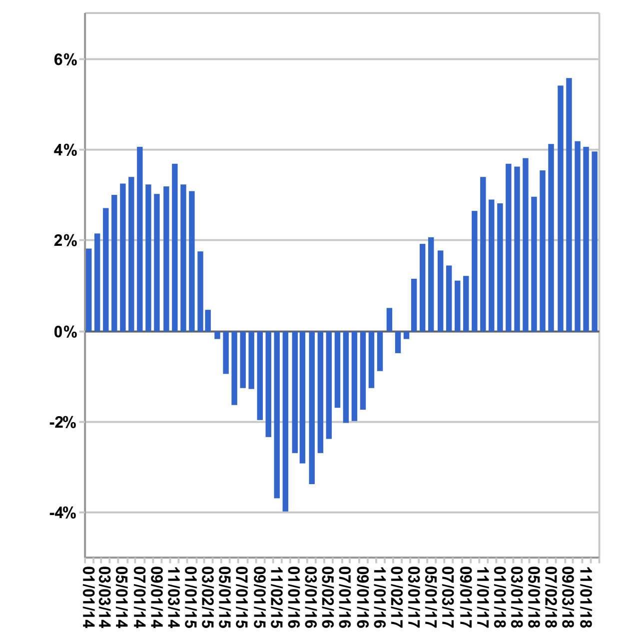
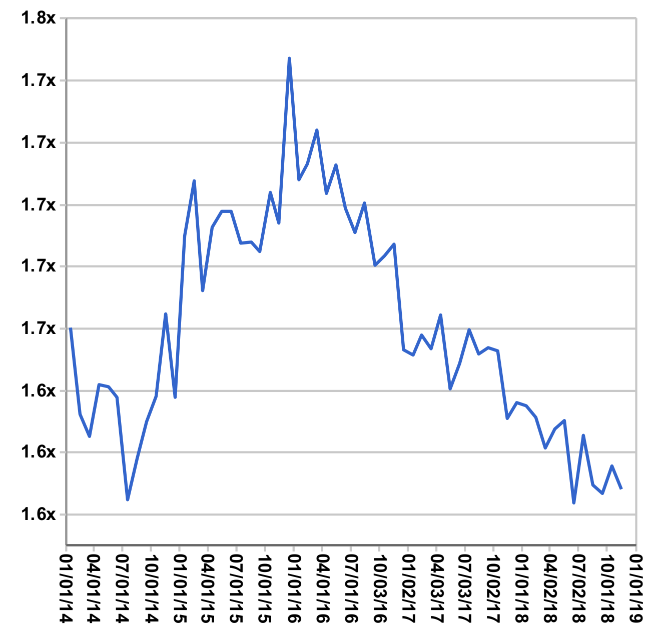
## Production and Business Activity Indicators

Figure 26: Industrial Production (% Chg YoY)



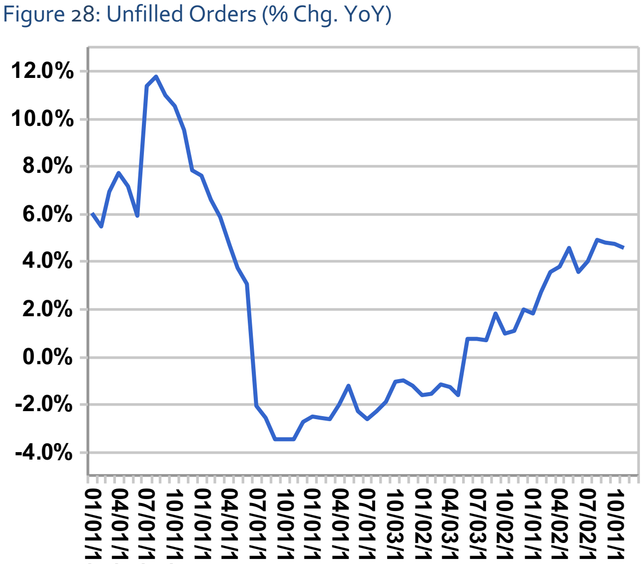

*Source: FactSet*

Figure 27: US Inventory to Shipment Ratio



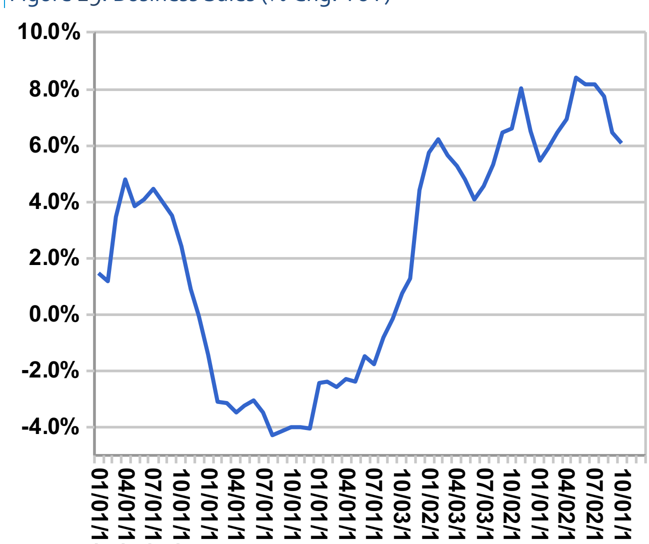

*Source: FactSet*

Figure 28: Unfilled Orders (% Chg. YoY)




*Source: FactSet*

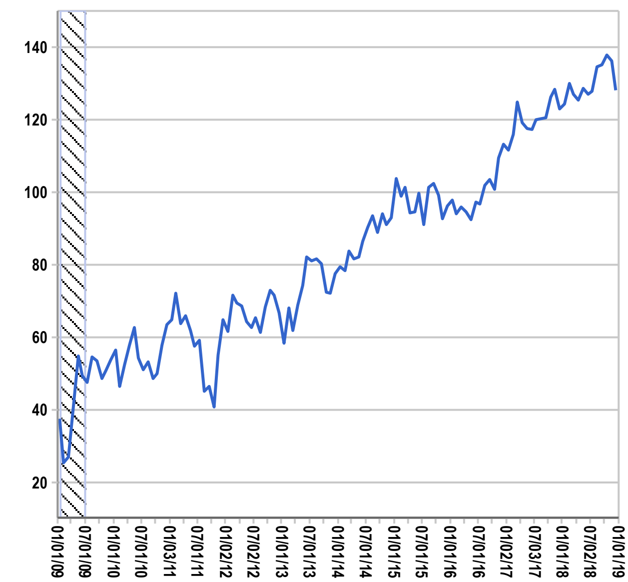
Figure 29: Business Sales (% Chg. YoY)




*Source: FactSet*

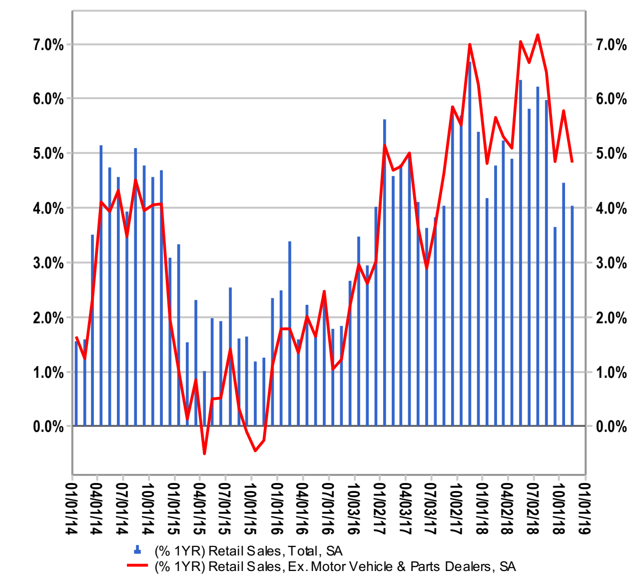
## Consumer and Household Activity Indicators

Figure 30: University of Michigan Consumer Sentiment



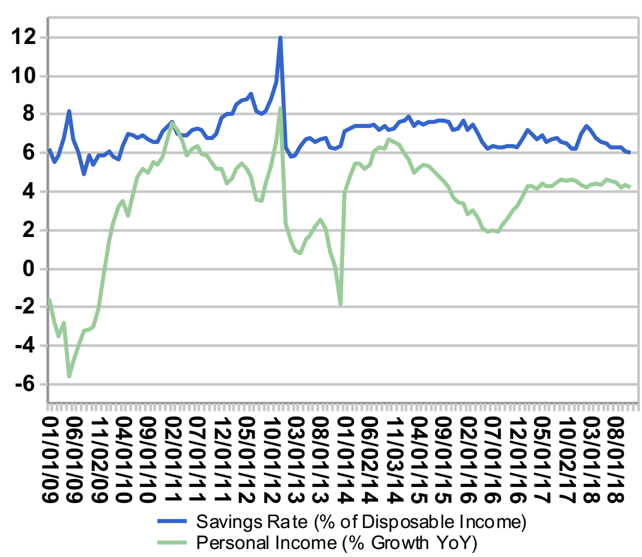

Source: FactSet

Figure 31: Retail Sales



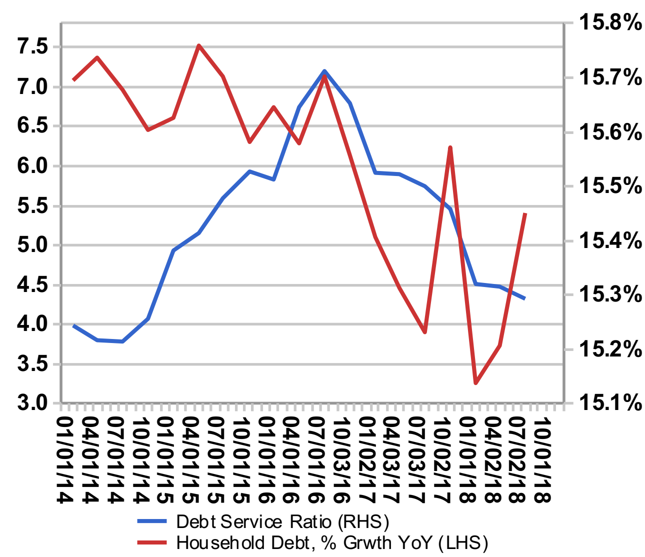

Source: FactSet

Figure 32: Personal Income and Savings Rate




Source: FactSet

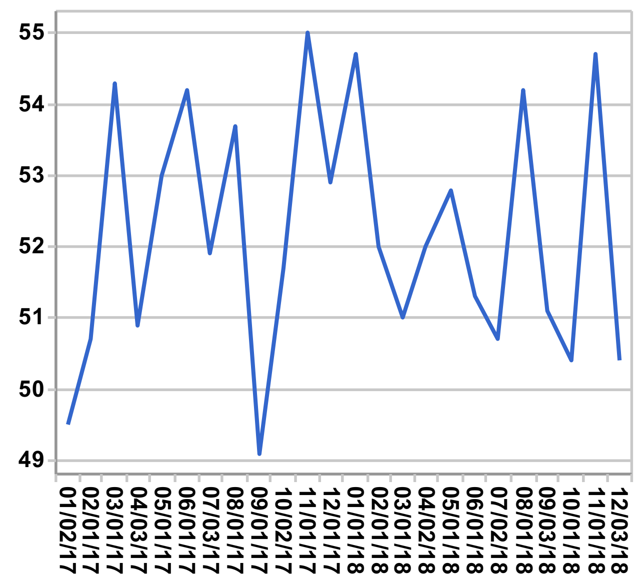
Figure 33: Household Debt




Source: FactSet

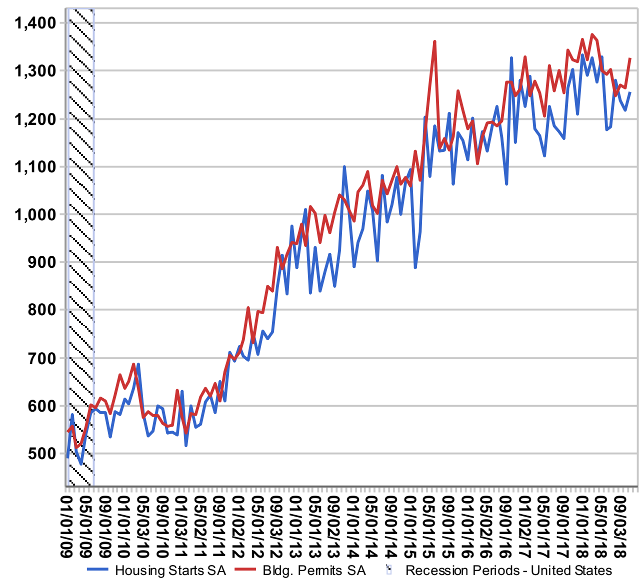
## Housing and Construction Indicators

Figure 34: Architecture Billings Index



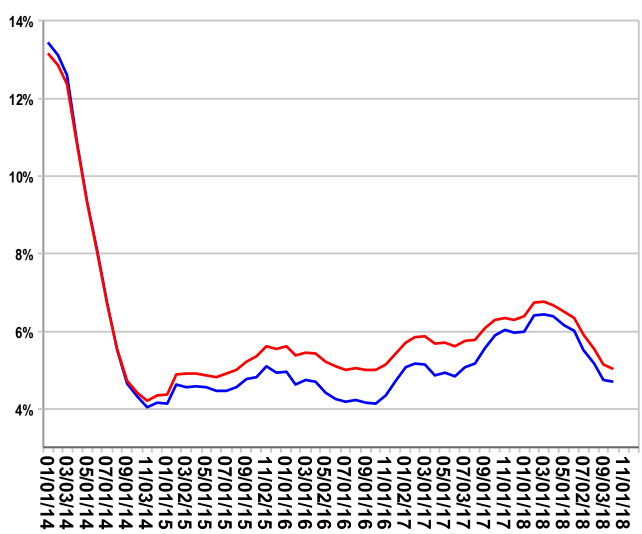

Source: FactSet

Figure 35: Housing Starts and Building Permits



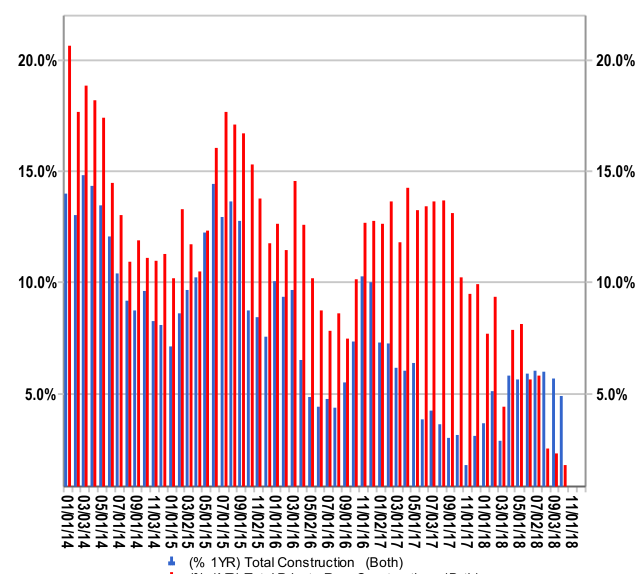

Source: FactSet

Figure 36: Case-Shiller 20-City & 10-City Index, % Chg YoY




Source: FactSet

Figure 37: Private and Total Construction (% Chg YoY)




Source: FactSet

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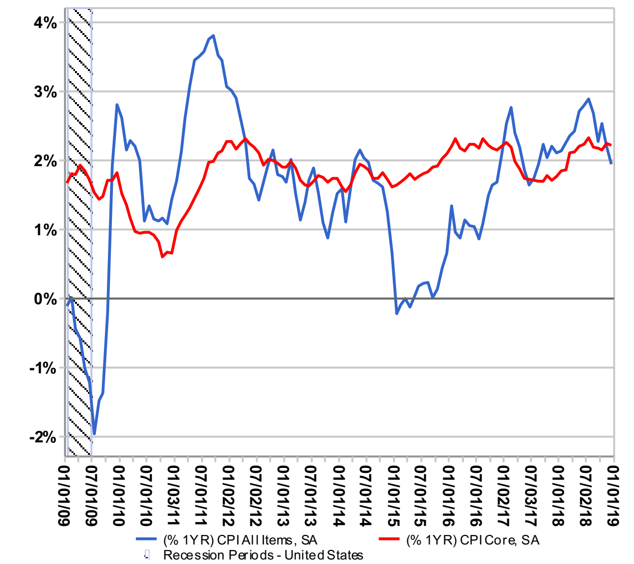
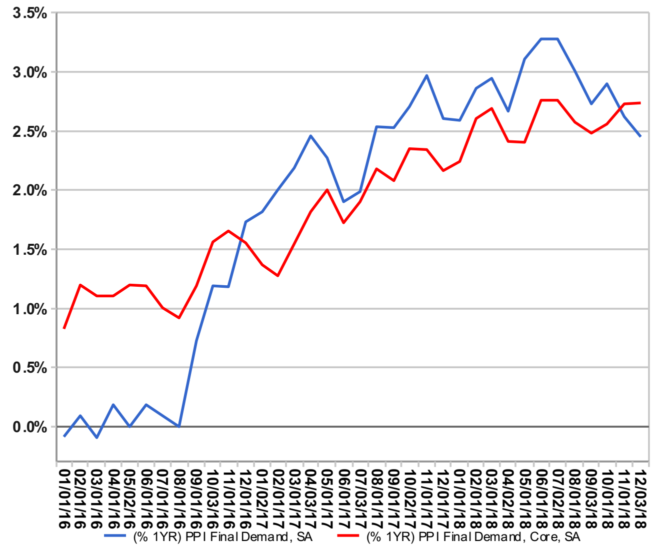
## Price Indicators

### Figure 38: Consumer Price Index



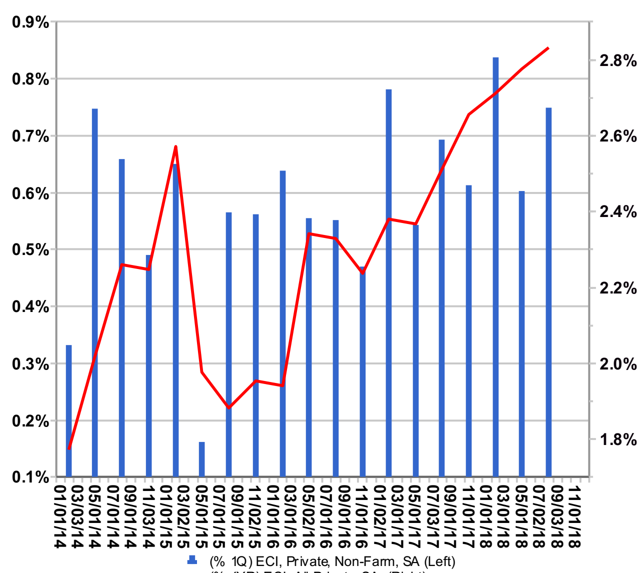

Source: FactSet

### Figure 39: Producer Price Index



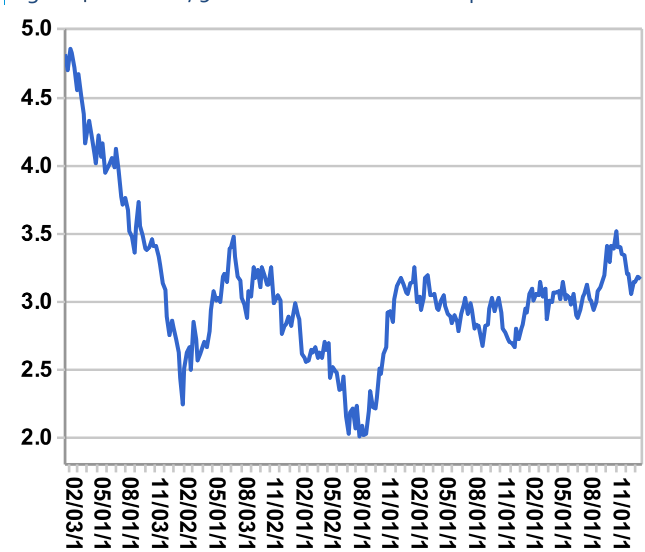

Source: FactSet

### Figure 40: Employment Cost Index




Source: FactSet

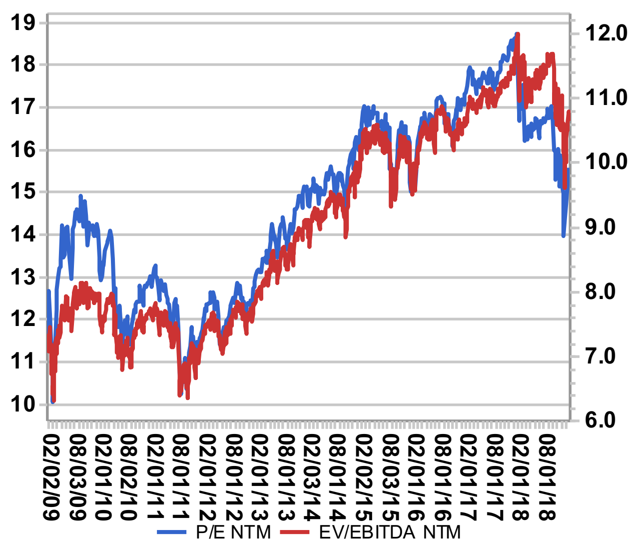
### Figure 41: 10-Year, 5-Year Forward Inflation Expectations




Source: FactSet

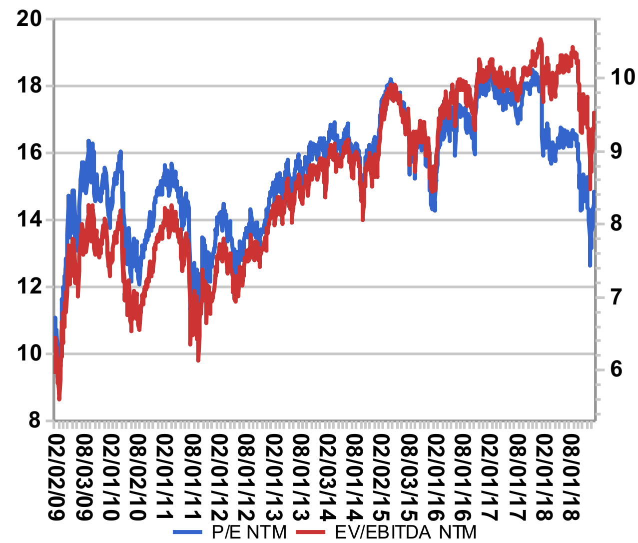
## Valuation Indicators

Figure 42: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



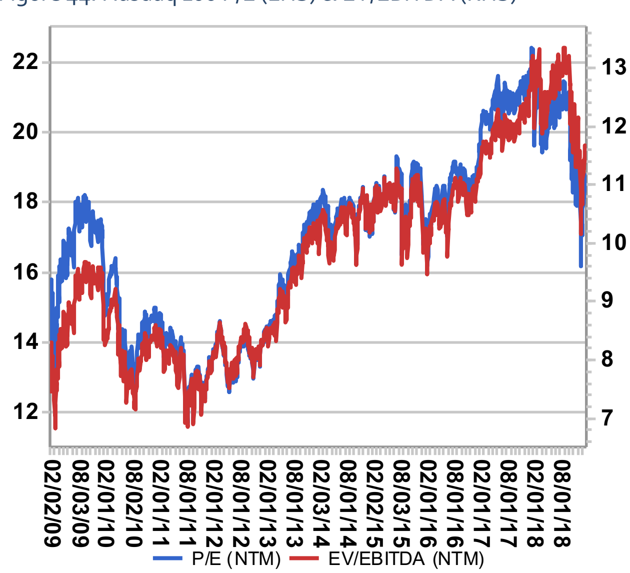

*Source: FactSet*

Figure 43: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



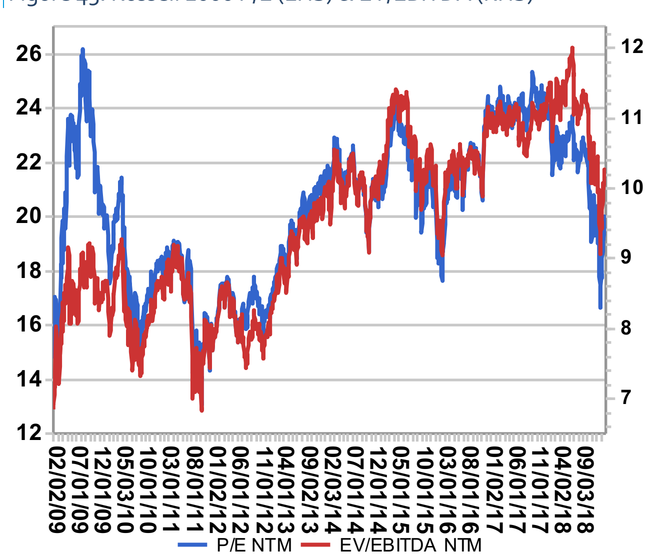

*Source: FactSet*

Figure 44: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)




*Source: St. Louis Federal Reserve, FRED Database*

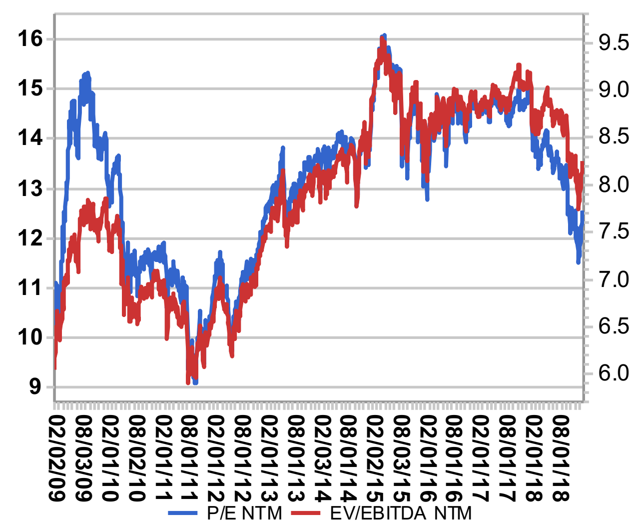
Figure 45: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)




*Source: St. Louis Federal Reserve, FRED Database*

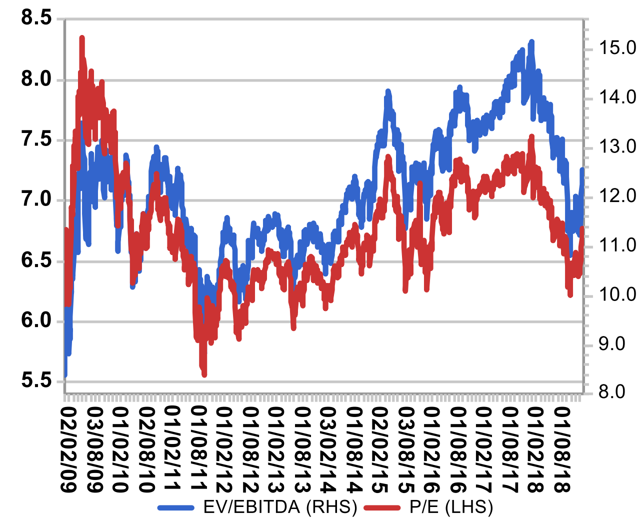
## Valuation and Volatility Indicators

Figure 46: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



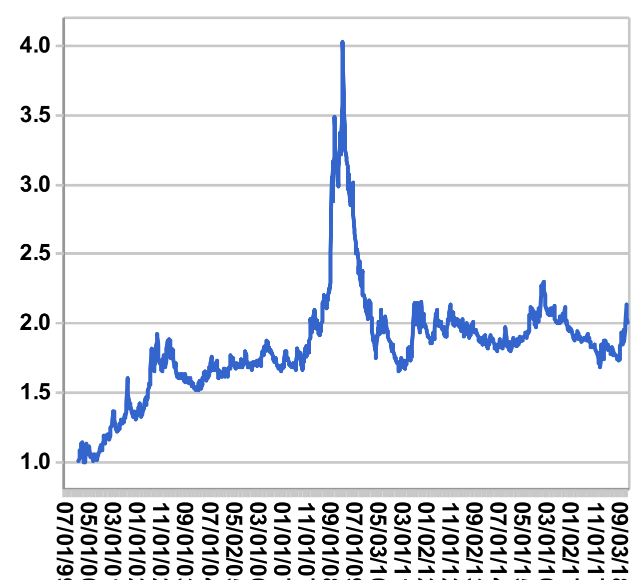

*Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's*

Figure 47: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



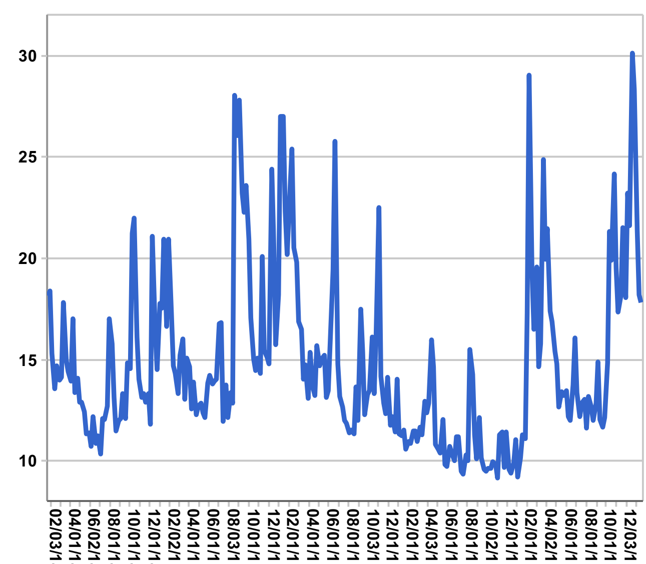

*Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's*

Figure 48: S&P 500 Dividend Yield




*Source: FactSet*

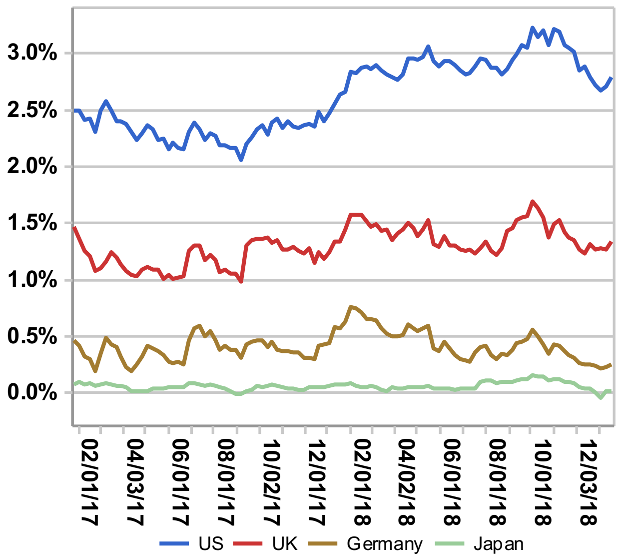
Figure 49: CBOE Volatility Index




*Source: FactSet*

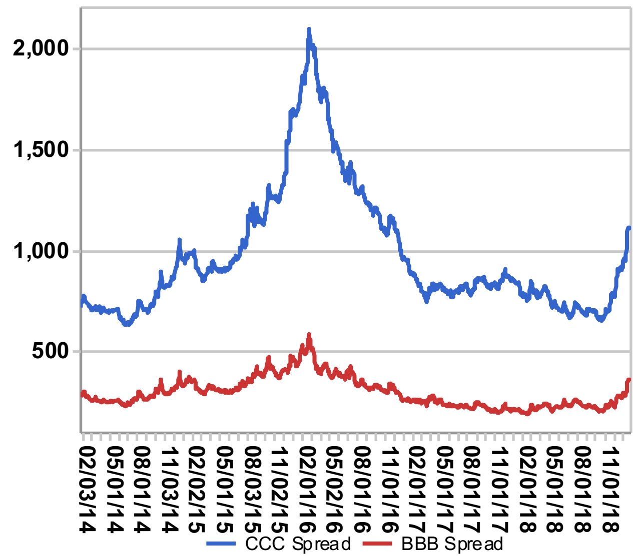
## Bond Market Indicators

Figure 50: 10-Year Global Bond Yields




*Source: FactSet*

Figure 51: CCC and BBB Spreads (Option Adjusted)

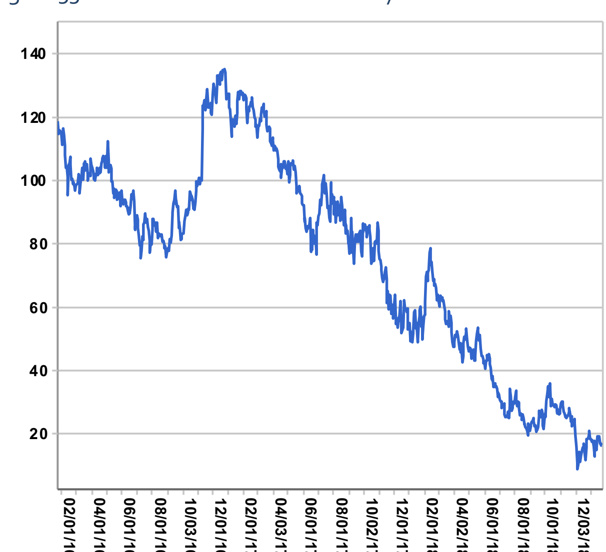



*Source: FactSet*

Figure 52: TED Spread (bps)


*Source: FactSet*

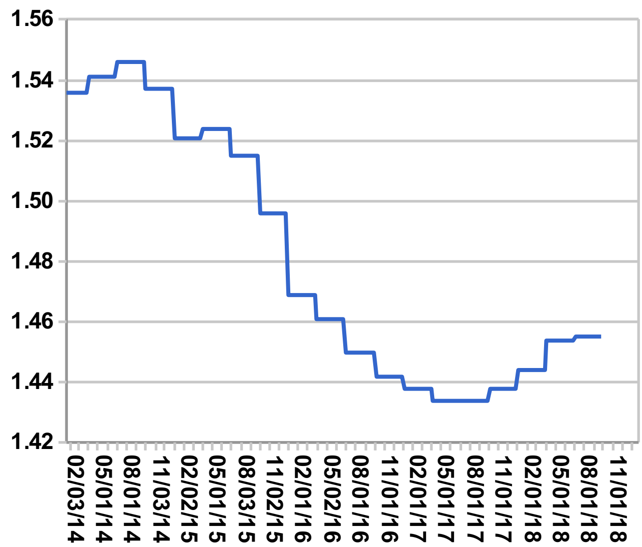
Figure 53: 10-Year Minus 2-Year Treasury




*Source: FactSet*

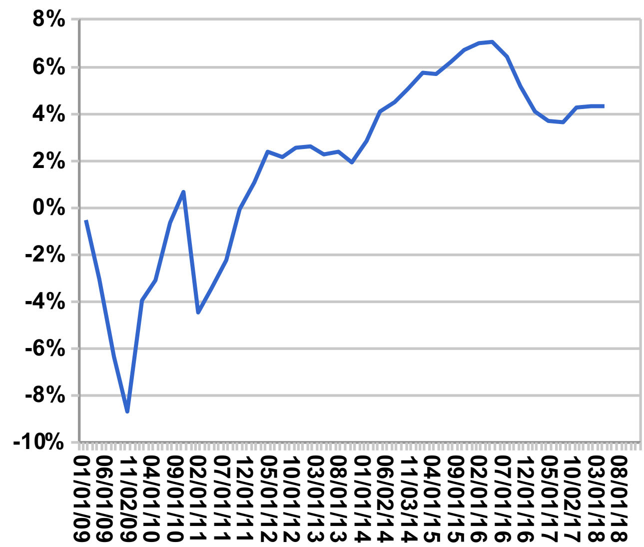
## Liquidity and Other Indicators

Figure 54: Velocity of M2 Money Stock



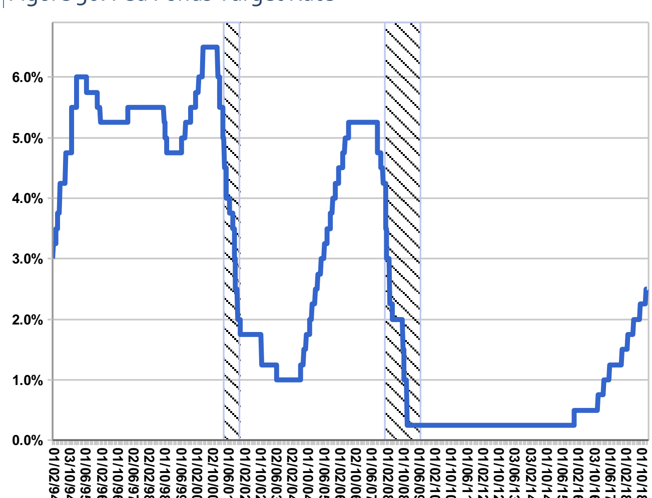

*Source: FactSet*

Figure 55: Loan Growth (Non-Financial, Private Sector)



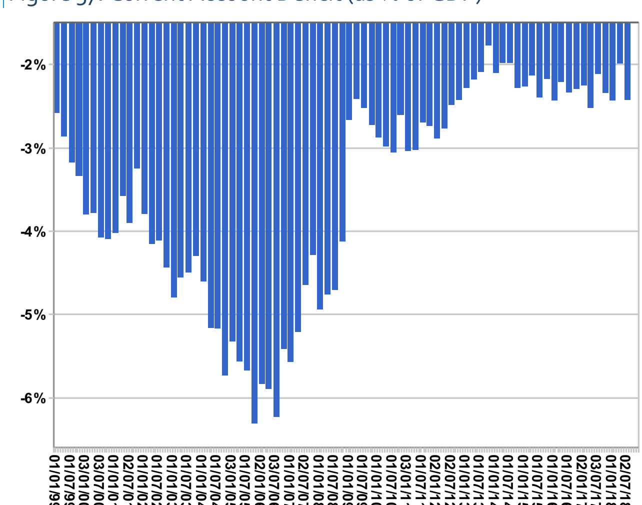

*Source: FactSet*

Figure 56: Fed Funds Target Rate




*Source: St. Louis Federal Reserve, FRED Database*

Figure 57: Current Account Deficit (as % of GDP)




*Source: St. Louis Federal Reserve, FRED Database*

# Appendix

## Important Regulatory Disclosures and End Notes

Form ADV available upon request.

This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of December 31, 2018; most other prices and yields are as of January 23, 2019.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

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eric@rockingstoneadvisors.com

[i] Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

[ii] Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet "accredited investor" standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone's performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

[iii] Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO's valuation and total return was inflated as of the end of the first quarter.

[iv] Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

[v] Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.

[vi] Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.