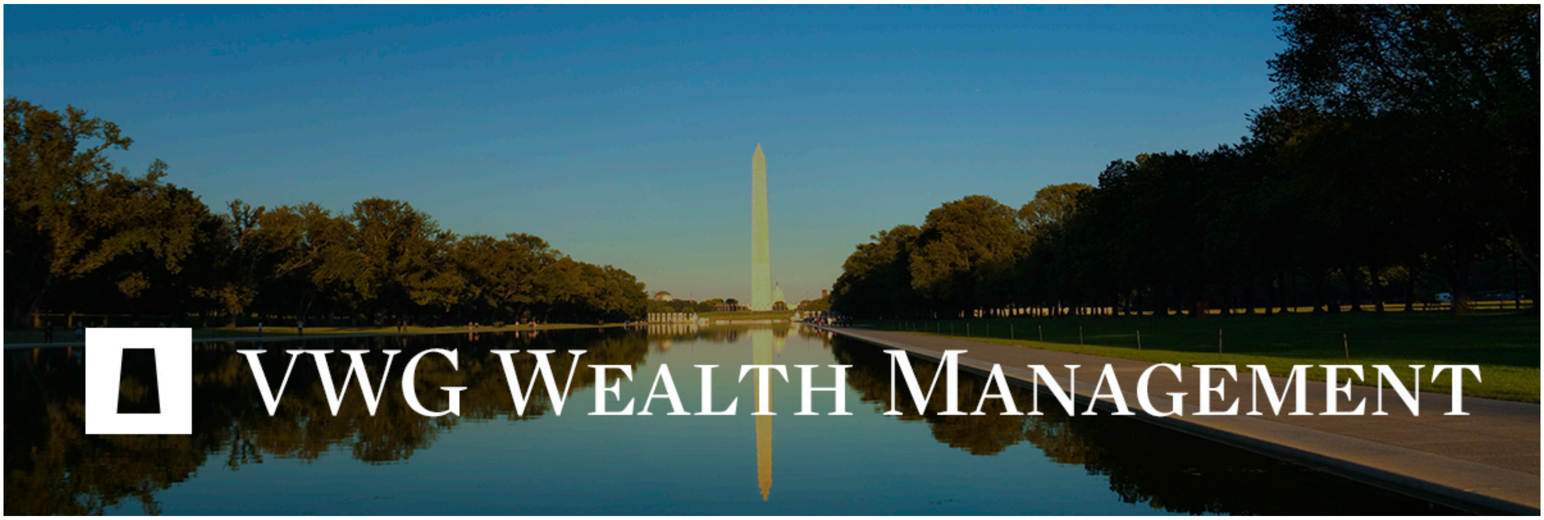


1st Quarter 2019 Review

Executive Summary

- Most economically sensitive assets rebounded strongly in the 1st quarter, posting a dramatic "Jekyll-and-Hyde"-like reversal from the previous quarters' extremely negative close.
- The S&P 500 Index enjoyed its best quarter in a decade. International stocks, high yield bonds, copper and oil enjoyed double-digit gains.
- In stark contrast to stocks, bond yields fell on fears of economic slowing and global stagnation. The amount of global bonds priced at a negative yield soared. The yield of longer-term U.S. Treasury obligations fell below the yield 3-month Treasury bill, "inverting" the yield curve. Some analysts took this to be a signal of a forthcoming recession and a cyclical peak in corporate earnings.
- VWG shares in enjoying the collective relief from overly pessimistic, deeply oversold price levels in assets seen at the end of the 4th quarter. We are encouraged by the prospects for investments held in our portfolios. However, we must acknowledge that markets have come a long way in a short period of time.
- Diversification, patience and an appropriate allocation to safer, stable investments are called for. VWG does not believe it to be a prudent time to chase asset prices, or increase risk.

Review of the Markets

U.S. stocks briefly hinted at a retest of recent lows at the beginning of the quarter, then quickly left the starting blocks, never looking back. The S&P 500 Index posted its best quarter in nearly a decade. This strong move didn't reflect a buying surge as much as it did a relief from the heavy pessimism and deeply washed out conditions that afflicted markets in December. Falling interest rates, apparent visibility on U.S./China trade negotiations, dovish words from the Federal Reserve signaling a hold on interest rate increases, and positive quarterly corporate earnings reports - all helped to re-stabilize the markets' collective psyche. Large U.S. stocks rose 13.6%. Viewing from a longer perspective, in an attempt to filter the erratic bust/boom action, the S&P 500 has now returned 9.4% over the past 12 months. Small stocks, as witnessed by the Russell 2000 index, increased 14.6%. Still reflecting sober expectations for the economy and earnings prospects, they have gained only 2.1% in the past 12 months.

International stocks measured by the MSCI EAFE Index rose 10.3%. Pressured by trade tensions, continuing Brexit negotiations, and near-stall speed European economies, the MSCI EAFE Index has dropped 4.0% over the past year. Emerging markets also performed well in the 1st quarter, highlighted by a strong rebound in Chinese stocks. The Chinese Shenzhen Composite Index gained 33.7%, but still remains in the red for the past year, down 7.3%. The broader MSCI Emerging Markets Index increased 9.9% for the quarter.

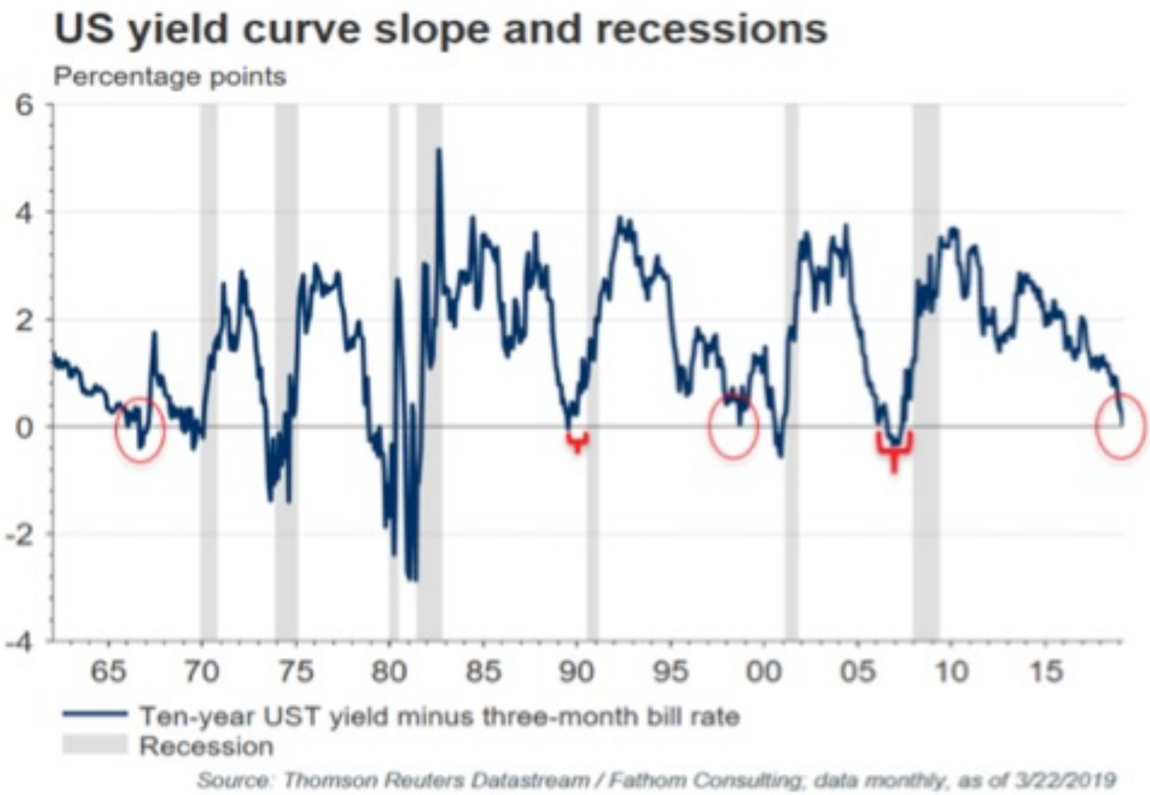
In stark contrast to equities' strong "risk on" reversal, yields of longer-term bonds continued their fall from the 4th quarter 2018. Abandoning any fears of inflation, the yield of the 10-year U.S. Treasury note closed the quarter at 2.41%. The yield of the 30-year U.S. Treasury bond dropped to 2.82%. At least for now, 2018's bond market narrative, of a rising interest rates bolstered by a continuing solid economy, has faded in the dust. Reflecting this, previously feared bonds enjoyed gains. The benchmark Barclays Aggregate Bond index increased 2.9%. The S&P National Municipal Bond Index returned 2.4% in the quarter. Mirroring stocks' 1st quarter deeply oversold bounce, the Barclays High Yield Very Liquid Index of high yield bonds rose 8.1% in the quarter. It has returned 6.2% for the past 12 months.

Commodity prices also rebounded. Copper, viewed as a global economic bellwether indicator, joined stocks in their contradiction to the bond market's sober outlook. For the quarter the NYMEX High Grade Copper continuous futures contract gained 11.2%. Crude oil rose more sharply, albeit from a very depressed level. The NYMEX West Texas Intermediate Crude continuous futures gained 32.4% in the quarter. Both copper and crude oil remain negative over the past 12 months.

The Yield Curve Inverts

In our 2018 2nd Quarter Review, we took a deep dive into the subject of a flattening yield curve. If you review that granular piece, you'll see that one of our conclusions was that "a narrowing (of the yield curve) in and of itself doesn't predict inversion." Nine months later, projection has become reality, rattling U.S. and global bond markets. On March 22, the U.S. Treasury curve inverted, with the yield of the 10-year Treasury note falling below the yields on 3-month and 2-year U.S. Treasury securities. Business media rants and Google searches on "yield curve" have spiked in the aftermath.

What's the big deal with an inverted yield curve? A number of economists interpret an inverted curve as an ominous signal of a future recession, and a cyclical peak in corporate earnings and share prices. The following graph shows a 56-year history of the spread between the yields of the 3-month U.S. Treasury bill and the 10-year U.S. Treasury note. As indicated by the gray bars, an economic recession has often followed after this spread measured below zero (curve inversion).



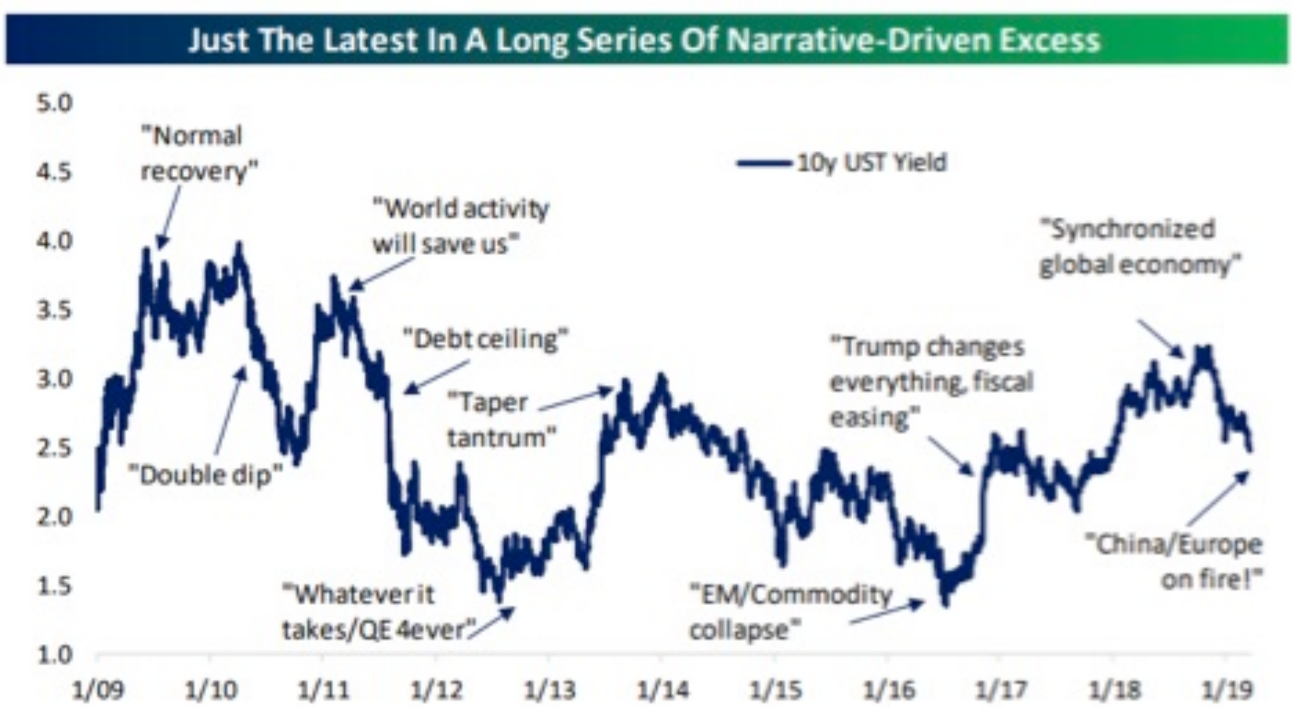
Should investors be concerned? Should we recommend they take action now? VWG fully embraces Sir John Templeton's advice that "the four most expensive words in the English language are 'this time it's different.'" However, we do believe there are some major points to consider before jumping to conclusions on the future course of the economy and financial markets.

- This signal's record is not perfect. As shown above, a recession did not follow the 1966 inversion circled in red. It also gives no indication of timing. A recession took more than a year to develop when the spread of the curve touched 0% in 1998 and 2007. Viewed in this light, the signal is always correct - a recession is forthcoming . . . . . .someday in the future.
- The inverted yield curve signal is not working elsewhere. It stopped being a useful signal in Japan in the 1990s, and it has not helped to predict European corporate earnings contractions in this cycle.
- Not all recessions are damaging to stocks and other "risk" assets. If the U.S. did enter recession it might not be that bad, considering that most economists view the economic growth post-2009 as disappointing. As always, one of the most important questions is "what future assumptions and expectations are already being priced into today's markets?"
- There have only been two recessions since the year 2000 (which coincidentally followed the bursting of massive asset bubbles). All recessions from 1991 and earlier occurred in a world without exponentially increasing computing power, the internet, and the cloud. The "asset light" business models who have emerged from this paradigm shift do not rely on heavy, ongoing capital expenditures in plant and equipment, contrary to traditional manufacturing-centric industry. Virtuous-cycle benefits have boosted countless businesses and consumers. Many economists see

this as hugely deflationary, with the potential to lengthen and shallow out the economic cycle.

- Another dramatic change since 1991 has been the massive expansion of global trade, and of globally connected financial markets. Global stocks, bonds and currencies have become almost seamlessly fungible. U.S. stock and bond markets no longer trade solely on U.S. fundamentals. In the 1st quarter of 2019 global bond yields fell steadily, and now as of this writing, it is estimated that 40% of all European government bonds are yielding less than 0%! This is pulling on the U.S. yield curve as global investors reach for yield. Strategas Research Partners' Tom Tzitzouris states, "we believe that the single biggest contributor to the push in lower yield in the belly of the U.S. curve has been duration seeking buyers from overseas."
- Another piece of this puzzle is the massive bond buying programs by the U.S., Euro Zone and Japan central banks that began in 2010. As we wrote in our Q2 2018 review, some claim "that quantitative easing programs have impaired bond yields' abilities to act as accurate economic barometers."

In attempting to summarize a very complicated picture, VWG Wealth Management believes it is unclear that the current yield inversion is a primary macro signal upon which to forge investment strategy going forward. This could be just another chapter, and another false narrative, in what has been VWG's base thesis - a global economy starved for growth, in which small fits and starts, both in expansion and contraction, are egregiously magnified. From a wider perspective, yields could be going nowhere, and economic growth could be "muddling." This chart, courtesy of Bespoke Investment Group, plots the past decade of the yield of the 10-year U.S. Treasury along, with the bond market "narratives du jour." Ten years post the financial crisis, intermediate-term bond yields are right where they began.



Source: Bespoke Investment Group

Portfolio Strategy and Asset Positioning

It has been quite a ride in equity markets. We sympathize with those who have gotten queasy along the way. After two tumultuous quarters, we're about where we began, at least in terms of large U.S. stocks. The bond market is at odds with large U.S. stocks' current "risk on" narrative, relaying a completely different, pessimistic story. One of these is wrong, calling at least for a pause and some equilibrium.

VWG Wealth Management's stance is cautiously positive. We are not chasing this rally by increasing allocation to U.S. stocks. But we're not sellers here either, except for those clients wanting to take advantage of the rebound to reduce exposure and add to some "dry powder." U.S. equity valuations are not excessive, and U.S. investor sentiment is far from frothy. The valuations of many international equities reflect despair towards any global growth. Some strategists believe that U.S. economic conditions will improve in the 2nd half, and some are calling for the global economy to trough.

However, equity markets have come very far in a very short period of time. It was only 3 months ago that stocks and high yield bond markets were on the verge of capitulation. The yo-yo action of the past two quarters have been dizzying. This, combined with the contrary action of underperforming U.S. small stocks and deeply suppressed bond yields, gives us pause. At this point, a period of digestion would be normal. A mid-year correction is always a possibility. Forthcoming 1st quarter corporate earnings releases will be watched carefully. The prolonged government shutdown "hangover" and winter weather could have adversely affected earnings. Ongoing trade war fears, extending far beyond U.S./China, could dampen forward earnings guidance for corporations with heavy reliance on exports. Some bigger picture economists still contend that S&P 500 earnings have peaked for this cycle.

We continually strive to maintain diversified portfolios. Even with their lower yields, the 4th quarter's plunge reinforces the value of bonds in portfolio construction. As our base thesis is "muddle through" and not "global recession", we are keeping bond durations short. The currently inverted yield curve assists us further by providing attractive alternatives to cash.

VWG Wealth Management continues to implement select structured note strategies, issued from only the highest quality Federal Bank Holding Companies. The increase in short rates, and occasional bouts of volatility, pose to offer opportunities for us in expressing attractive risk/reward note structures. For suitable clients, replacing a portion of traditional stock exposure with partially downside-protected notes is a prudent strategy.

We also continue to research differentiated private strategies - focused on forming and growing businesses, and on owning and operating sleeves in specific sectors of real estate. We seek to invest with niche operators and strategies that can work with a contained pool of assets, and who may offer the potential of some independence from larger macro factors. Here, VWG needs to be very selective and deliberate. We need to comb through many opportunities, passing on most. As with public markets, we do not believe now is the time to be overly aggressive. A record amount of assets has poured into very large private equity and real estate pools in the past few years. This poses to increase values of many private assets, and thus reduce their potential returns. Even if these large funds eventually prove profitable, we would prefer to miss some opportunities in the attempt of avoiding being part of "the herd."

Best wishes to everyone for a brilliant and invigorating spring!

Spring calls us to get outside, enjoy some sunshine and fresh air, and celebrate new growth. We thank you for trusting us to take on some of the burden of these heavier financial and economic issues. VWG Wealth Management's raison d'etre is to enable you to fully enjoy the blessings of family, friends, and the natural world. We look forward to speaking and meeting with many of you over the coming months.

Regards,

VWG Wealth Management

Suzanne, Ashley, Rashmi, Kay, Lynette, Michelle, Christina, Ryan, Amanda, Sarah, Justin, Elana, Patricia, John, Rick and Jeff

Who We Are

** Index Data Sourced from FactSet Research, Morningstar, Bespoke Investment Group, Strategas Research Partners*