



**WISCO**  
Investment Management

*First Quarter 2019*

**DEAR CLIENTS & FRIENDS;**

The Wisco-managed portfolios performed well in the first quarter of 2019. **Our higher-risk portfolios (Aggressive & Growth) experienced returns in the low double-digits while our lower-risk portfolios (Conservative & Balanced) were up in the high single-digits.** Portfolio performance benefited from strong gains across all major asset classes and offset the losses from the fourth quarter market pullback.

Our riskier portfolios benefited from their higher relative allocations to global equities. The **U.S. stock market gained 14%** in the quarter driven by the pivot in the Fed's policy stance in January. The Fed suspended its planned interest rate hikes and indicated that they would be more data dependent moving forward. In March, the Fed also announced plans to end its balance sheet runoff at the end of September 2019. As a result of these actions, we believe market concerns surrounding policy and recession risk subsided and investors returned to riskier assets.

**International equities**, in aggregate, also performed well, posting an **11% return** in the first quarter. This was the strongest gain in the MSCI World Index since the summer of 2010. Although most foreign markets are coming off down years with lowered growth expectations, we believe money flowed back into many foreign equity markets on the heels of the U.S. market recovery and improving expectations for stabilizing global growth (particularly if Brexit and trade negotiation overhangs dissipate in the next few months).

Our fixed income exposures also performed well in the quarter. The Barclays aggregate **bond index rose 3%** this period benefiting from falling rates. The 10-year treasury yield fell from 2.7% at the beginning of the quarter to 2.4% at the end (fixed income prices and interest rates generally move inversely with each other). Rate expectations for the rest of the year have also come down.

Our commodity exposures consisted of a gold and crude oil fund this quarter. Gold remained relatively flat this period while **crude oil spiked 29%**. Wisco uses commodity exposures in our ETF-portfolios as they tend to improve portfolio diversification relative to traditional stock and bond investments in most environments.

As always, we would like to remind you that we are available to meet anytime to review your current investment strategy, portfolio performance, targeted risk level and/or financial goals. Please don't hesitate to give us a call to schedule a meeting.

At WISCO, we believe our approach of designing well-diversified, low-cost investment portfolios is the best way to produce favorable results over time. We would like to thank you for providing us with the opportunity to work with you as your investment adviser. We appreciate your business!

Sincerely,

*The Wisco Team*



## First Quarter 2019

# Wisco Investment Management

Wisco-managed portfolios are constructed using five asset classes; Domestic Equity, International Equity, Domestic Fixed Income, Alternative Investments and Money Market. Our current managed portfolio asset class allocations are as follows:

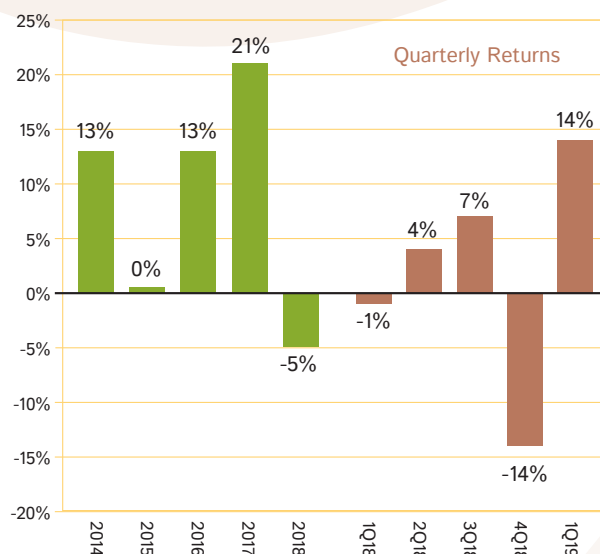
### WISCO MANAGED PORTFOLIOS

	Conservative	Balanced	Balanced Growth	Growth	Aggressive
Domestic Equity	28%	40%	52%	60%	73%
International Equity	5%	5%	5%	10%	15%
Domestic Fixed Income	50%	38%	27%	16%	0%
Alternative Investments	7%	9%	10%	10%	10%
Money Market	10%	8%	6%	4%	2%
Total	100%	100%	100%	100%	100%
Target Volatility*	6%	8%	10%	12%	15%

\*Target Volatility is our estimate for the annual standard deviation of portfolio returns.  
Source: Wisco Investment Management LLC

## First Quarter 2019 Market Review

### DOMESTIC EQUITY



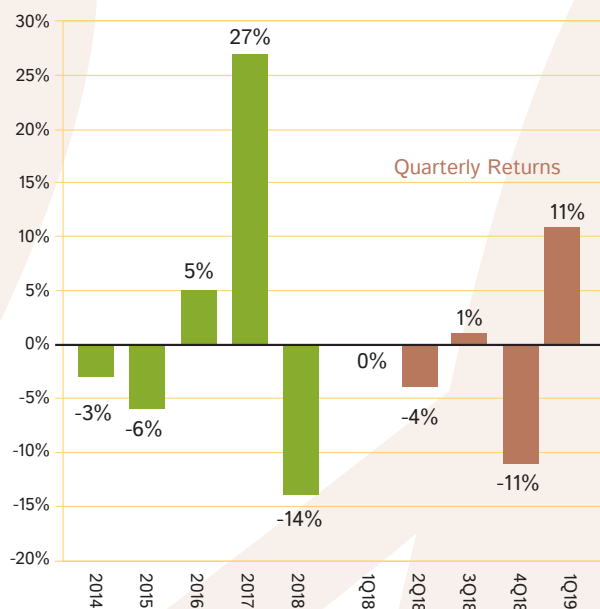
Source: Dow Jones U.S. Broad Stock Market Index and Wisco.

The domestic equity market rebounded in 1Q19 returning 14%. The S&P 500 closed the quarter at 2834 which is 4% below its high mark of 2941 which it reached on September 21, 2018. The market increase was board based with mid-cap and small cap stocks both up 16% in the quarter. Growth stocks outperformed value stocks in 1Q19 (15% vs.

12%). Investors were encouraged that the Federal Reserve did not increase rates in 1Q19 and indicated that it was unlikely they would increase rates in 2019. A more dovish Fed, tame inflation (annual inflation was 1.5% at the last reading) and OK growth led equity values higher. In 4Q18, GDP increased at an annual rate of 2.6%, and S&P 500's earnings growth was up 17% versus last year. Going forward, it will be hard for corporate earnings growth in 2019 to match 2018's 21%. However, unemployment is low, and the domestic consumer is in good shape. This fact combined with a dovish Fed and less regulatory burden should help corporate earnings. Under this scenario, we feel S&P 500 earnings could grow in the mid-single digit range in 2019.

The S&P 500 is now trading at 17.5x 2019 consensus operating earnings, up from 14.3x at the start of the year. The market has moved from undervalued to fairly valued in our view. Wisco increased exposure to the domestic equity market in all our managed portfolios at the start of 2019 and while the decision has paid off to date, we think markets could still go higher as investors no longer have to fight the Fed and a recession seems less likely in 2019. We continue to prefer large cap and dividend paying companies to mid and small cap stocks.

## INTERNATIONAL EQUITY

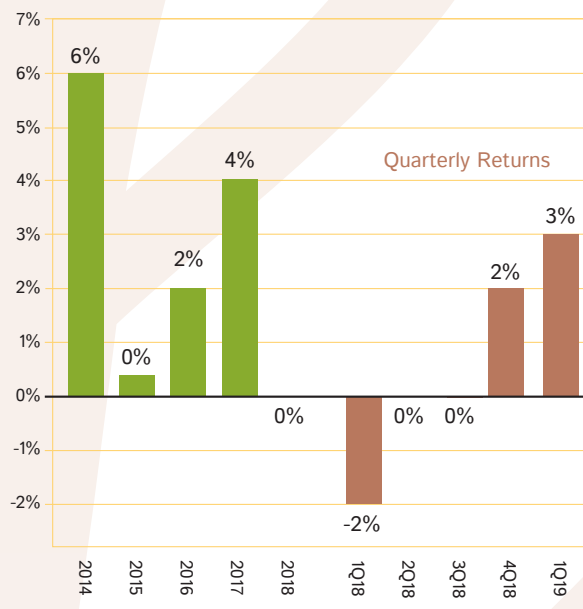


Source: MSCI ACWI ex USA and Wisco

The MSCI All World Index had a strong quarter increasing 11% in 1Q19, with the FTSE Developed Large Cap Index up 10%, FTSE Developed Small Cap Index up 11% and FTSE Emerging Market Index up 11%. In Europe, most markets were up with Greece (up 16%) and Switzerland (up 12%) among the best performers, while Poland (up 1%) underperformed. In Asia, Japan increased 6% and Australia was up 12%. Shanghai had a strong recovery increasing 27% in the quarter. Other notable emerging market results are Russia (up 12%) and Malaysia (down 1%).

The Eurozone's GDP in 4Q18 was slightly better than 3Q at 0.9%. In Asia, China's GDP growth slowed to 6.1% and Japan posted a much better GDP of 1.9% after 3Q18's -2.5%. The ECB ended its bond buying program in December. While international equities had a strong quarter, international markets generally have not been able to grow as fast as the domestic economy. That combined with less monetary flexibility overseas gives us a mixed outlook for international equity. For the reason, we reduced our client's exposure to international markets at the start of the year. Longer-term, we continue to believe that international equity is an important component of a well-diversified portfolio.

## DOMESTIC FIXED INCOME



Source: Barclays Capital U.S. Aggregate Bond Index and Wisco.

The Barclays U.S. Aggregate Bond Index increased 3% in 1Q19, with Intermediate Treasuries up 2%, Investment Grade Bonds up 5%, and High Yield Bonds up 6% in the quarter. The 10-year treasury yield moved lower in the quarter starting at 2.69%, bottoming at 2.38% on March 25th, then closed the quarter at 2.41%. The Federal Reserve held its current fed funds rate steady at a range of 2.25% to 2.50% and estimated they would not raise rates in 2019, which was a significant change from December's estimated of 2 rate increases in 2019. Going forward, we think the Fed may be on the sidelines for an extended period given inflation is tame and global growth is decelerating.

Fixed Income posted solid results as the Fed materially changed guidance. Going forward, we feel fixed income will produce at best low single digit returns. We reduced our exposure to Fixed Income in all our managed portfolios as we felt there were better opportunities in equities. Longer-term, we feel fixed income is an important part of a diversified portfolio, especially for more conservative investors. Investment grade corporate bonds outperformed government bonds this quarter, we think this trend will continue in the second quarter as investors seek out higher yields.



## ALTERNATIVE INVESTMENTS

The Dow Jones-UBS Commodity Index increased 7% in the quarter. In agriculture, grain prices were mixed in 1Q19. Corn prices decreased 3%<sup>1</sup>, while soybean prices were flat in the quarter<sup>1</sup>. Grain prices are low compared to their 2008 levels, however, there doesn't seem to be a catalyst to move prices higher and with foreign tariffs continuing to act as a headwind, we don't feel it is necessary to own grains. Precious metal prices were mixed in the quarter, after a strong performance in 4Q18. Gold prices increased 1%<sup>2</sup>, while silver prices declined 2%<sup>3</sup> in 1Q19. Finally, crude oil prices increased 30%<sup>4</sup> in 1Q19. Prices recovered from an awful 39%<sup>4</sup> decline in 4Q18, as recession fears subsided, and OPEC made progress in limiting supply.

**Wisco's managed portfolios swapped out of a silver ETF and into a crude oil ETN in January, which benefited clients.** The crude oil ETN increased 29% in the quarter. Going forward, we feel

oil can still move higher as producers adjust supply to support a positive price trend. This combined with growing global GDP should help oil prices. We also hold gold as it is a non-correlated asset that can provide some protection during times of geopolitical and economic uncertainty. It also can protect a portfolio from high levels of inflation.

## MONEY MARKET

Money market yields increased substantially in over the last 24 months with a current yield of 2.3%. Given this higher yield, Wisco has money market exposure in all our client portfolios. We feel this rate should stay at current levels if the Federal Reserve stands pat with its short-term interest rate policy.

## FOOTNOTES:

1. Return calculation based on the near future contract as quoted in the Wall Street Journal.
2. Return calculation uses Aberdeen Physical Gold Shares (SGOL) as a proxy for gold.
3. Return calculation uses Aberdeen Physical Silver Trust ETF (SIVR) as a proxy for silver.
4. Return calculation uses Cushing, OK WTI spot price FOB as a proxy for oil.

## DISCLAIMER:

WISCO Investment Management LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities product, service, or investment strategy. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser, tax professional, or attorney before implementing any strategy or recommendation discussed herein.

*Wall Street to Wisconsin*