WISCO
Investment Management

Third Quarter 2019

DEAR CLIENTS & FRIENDS;

Dear Clients and Friends;

The Wisco-managed ETF portfolios experienced positive returns across the risk spectrum in the third quarter returning 1-2%. Our lower risk portfolios (Conservative & Balanced) modestly outperformed our higher risk portfolios (Growth & Aggressive). Performance was driven primarily by gains in U.S. stocks, bonds and precious metals, offset to an extent by modest declines in international equity markets.

The U.S. stock market increased 1% in the quarter and is up 20% year-to-date. We believe the gains have been driven primarily by easing Fed monetary policy (i.e., rate cuts) and a strong U.S. consumer which has resulted in stronger-than-expected economic growth. Fed fund futures are now pricing in a 54% chance of a rate cut at the October 30st meeting and a 25% chance of second-rate cut at the last meeting of the year on December 11th (25 basis points each). Lower interest rates generally serve to stimulate economic activity and corporate profits.

The gains in the U.S. stock market came along with increased headline volatility this quarter. The market fluctuations centered around intensifying trade negotiations, weakening global growth expectations, a yield curve that remains inverted (which has historically been a signal of slowing growth) and most recently rising uncertainties around political leadership and policy.

The MSCI All World Index declined 2% in the third quarter but is still up 12% year-to-date. The underperformance in international markets resulted from economic slowdowns in many developed and emerging markets. Many of the world banks have re-focused on monetary easing to help stimulate their economies. A sustained trade war between U.S. and China and prolonged protests in Hong Kong could have longer-term implications for global growth.

Our fixed income allocations performed well this period. **The Barclays aggregate bond index rose 2% this period benefiting from falling rates.** The 10-year treasury yield fell from 2.0% at the beginning of the quarter to 1.7% at the end (fixed income prices and interest rates generally move inversely with each other).

Our commodity exposures this quarter consisted of a gold and silver fund. **Gold was up 4% while silver increased 11%.** We use alternative exposures (like metals) in our ETF portfolios as they tend to improve portfolio diversification when combined with traditional investments.

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

Check Out Our NEW Website:
wiscoinvest.com

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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:

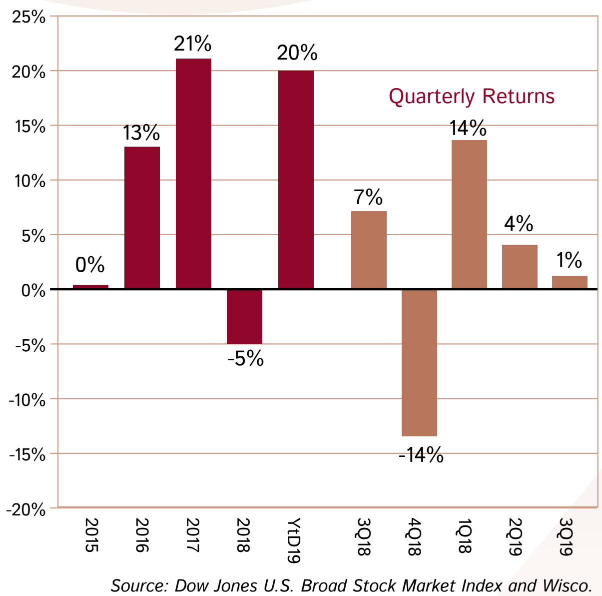
WISCO MANAGED PORTFOLIOS

	Conservative	Balanced	Balanced Growth	Growth	Aggressive
Domestic Equity	27%	37%	47%	55%	67%
International Equity	5%	9%	10%	15%	18%
Domestic Fixed Income	50%	38%	29%	18%	5%
Alternative Investments	8%	8%	8%	8%	8%
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

Third Quarter 2019 Market Review

DOMESTIC EQUITY

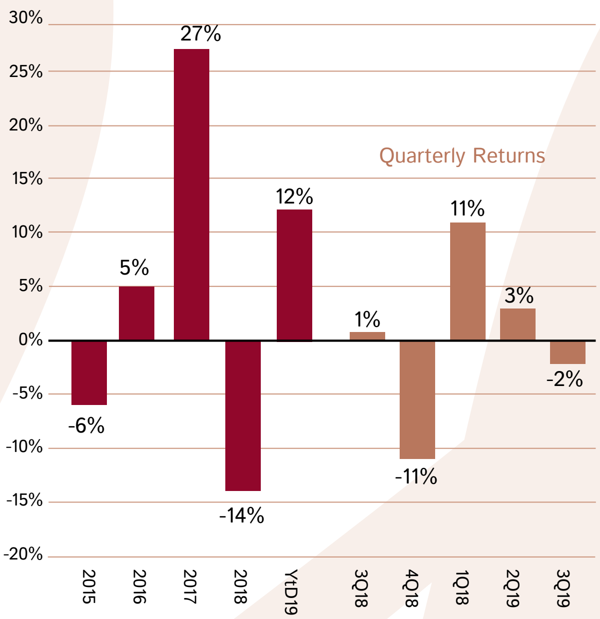


Source: Dow Jones U.S. Broad Stock Market Index and Wisco.

The market had a positive return in 3Q19 increasing 1%. The S&P 500 reached an all-time high on July 26th at 3028 before closing the quarter at 2976. In the quarter, large cap and value stocks outperformed small cap and growth stocks. Large cap dividend stocks returned 4%, while small cap stocks declined 2%. In 2Q19, GDP grew at an annual rate of 2.0%, while S&P 500's earnings were once again flat year over year. Earnings growth in more defensive sectors such as Health Care (up 9%) and Financials (up 5%) were offset by weakness in cyclical sectors such as Industrials (down 10%) and Materials (down 18%). The China trade dispute and soft growth in Europe may be partially responsible for this cyclical earnings decline. Going forward, 2019 earnings will likely be flat to slightly positive when compared to 2018. However, the current consensus forecast is for S&P 500 earnings to grow 10% in 2020. While this forecast may be a little aggressive, we feel 2020 earnings growth is possible given unemployment is low, the domestic consumer is in good shape and the Fed is more dovish cutting rates in 3Q19. In addition, a reduction in global trade tensions could also help 2020 growth prospects.

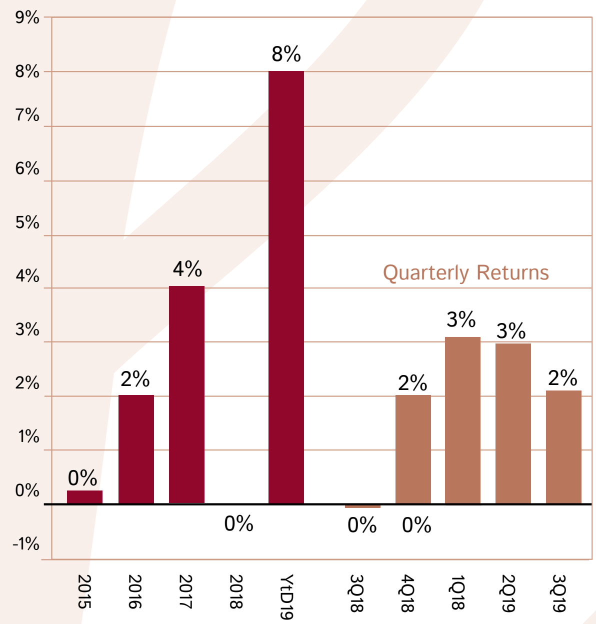
The S&P 500 is now trading at 18.5x 2019 consensus operating earnings, which suggests a fairly valued market near term. Longer-term, we feel the market can still move higher especially if consensus growth expectations are realized. Therefore, Wisco continues to invest in U.S. stocks and we prefer larger capitalization dividend paying companies to smaller capitalization companies.

INTERNATIONAL EQUITY



Source: MSCI ACWI ex USA and Wisco

DOMESTIC FIXED INCOME



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

The MSCI All World Index decreased 2% in 3Q19, with the FTSE Developed Large Cap Index down 1%, FTSE Developed Small Cap Index down 3% and FTSE Emerging Market Index down 4%. In Europe, most markets declined with Germany down 4% and Poland down 11%. In Asia, Japan increased 3%, however, this was offset by declines in Hong Kong (down 8%) and South Korea (down 7%). Emerging markets had declines in Shanghai (down 6%), Brazil (down 5%), and South Africa (down 12%).

The Eurozone's GDP in 2Q19 slowed to an annual rate of 0.8%, with Germany (-0.3%) and Austria (-1.3%) both contracting. Japan's GDP slowed to 1.3%. China bucked the slowing trend with GDP growth accelerating to 6.6%. Despite an accommodative ECB, European countries such as Germany seem unwilling to borrow money, even at negative rates, to stimulate their economy. In China, an accommodative government has pushed the money supply up over 8% y/y to keep growth in check. However, trade tensions continue to be an issue for China and other emerging markets. We believe exposure to international markets is an important part of a diversified portfolio and prefer large developed markets to small emerging markets.

The Barclays U.S. Aggregate Bond Index increased 2% in 3Q19, with Intermediate Treasuries up 2%, Investment Grade Bonds up 3%, and High Yield Bonds up 1% in the quarter. The 10-year treasury yield started the quarter at 2.02%, holding steady in July, but then began falling in August bottoming September 3rd at 1.43% before recovering to finish the quarter at 1.68%. The Federal Reserve cut the fed funds rate twice in the quarter and the range is now 1.75% to 2.0%. However, the Fed feels they are about done with this mid-cycle rate adjustment, about half the Fed members expect the fed fund rate range to be 0.25% lower by the end of 2020 than it is today. While the other members expect the range to be the same or higher by year end 2020.

Fixed income posted strong results as the Fed cut rates and inflation remained tame. While fixed income has produced strong returns this year, we expect more modest returns going forward. In July, we shortened the duration of our client's fixed income exposure because shorter duration bonds carry less risk than longer duration bonds. In addition, we continue to prefer investment grade corporate bonds to government bonds, given they offer greater yields.

ALTERNATIVE INVESTMENTS

The Dow Jones-UBS Commodity Index declined 2% in the quarter. In agriculture, grain prices were mixed in 3Q19. Corn prices decreased 8%[1], while soybean prices were up 1% in the quarter[1]. A wet Spring gave way to excellent Summer growing conditions. In addition, tariff headwinds continue to have a negative impact on prices. Wisco clients currently don't have any exposure to grains.

Precious metal prices were up in the quarter. Gold prices increased 4%[2] in the quarter and are now up 15%[2] year-to-date, while silver prices increased 11%[3] in 3Q19.

Crude oil prices were flat in the quarter and are up 27% year-to-date[4]. Strong domestic production offset global supply disruptions resulting in oil being range bound the last three months.

Wisco moved out of a crude oil ETN and into a silver ETF in July, which helped our client's performance in the quarter. Going forward, we feel precious metals should continue to do well. We believe gold and silver could benefit from accommodative monetary policy around the world. Precious metals are also less correlated to stocks and bonds which helps to diversify and reduce risk in portfolios. Finally, gold and silver can also provide some protection during times of geopolitical and economic uncertainty.

MONEY MARKET

Money market yields decreased in the quarter from 2.2% to a current yield of 1.8%. Wisco has money market exposure in all our client portfolios. We feel this rate should stay at current levels if the Federal Reserve is done reducing short-term interest rates.

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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.

Wall Street to Wisconsin

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