

Hi everyone. This is Steve Elwell, Chief Investment Officer of Level Financial Advisors, and this is your second quarter 2019 market review.

Quarterly Update

Q2 - 2019

Level Financial Advisors



The second quarter was a little bit of a roller coaster. April was good, May was bad, and June recovered everything that was lost in May and then some.

Quarterly Market Summary

Index Returns

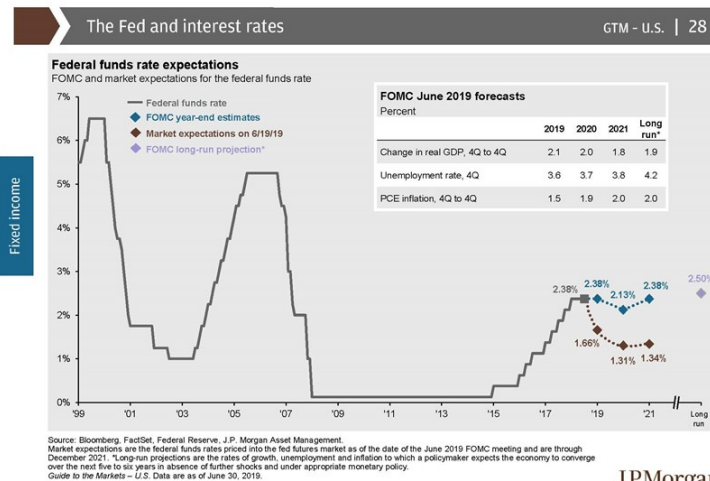
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q2 2019	4.10%	3.79%	0.61%	1.29%	3.08%	2.75%
						
Since Jan. 2001						
Avg. Quarterly Return	2.0%	1.5%	2.9%	2.6%	1.2%	1.1%
Best Quarter	16.8%	25.9%	34.7%	32.3%	4.6%	4.6%
	2009 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-21.1%	-27.6%	-36.1%	-3.0%	-2.7%
	2008 Q4	2008 Q4	2008 Q4	2008 Q4	2016 Q4	2015 Q2

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index (net div.)), Emerging Markets (MSCI Emerging Markets Index (net div.)), Global Real Estate (S&P Global REIT Index (net div.)), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex US Bond Index (net div.)). S&P data © 2019 S&P Dow Jones Indexes LLC. All rights reserved. From Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved. Bloomberg Barclays data provided by Bloomberg.



The US stock market finished up approximately 4% for the quarter, along with international stocks slightly below that. Emerging market stocks and global real estate were positive for the quarter, as well,

although to a lesser degree. The bond market also had a good quarter, very good and above average for the bond market, mainly because there was additional information and belief that the Federal Reserve and global central banks are now considering possibly cutting interest rates to help stem any type of economic slowdown. And that is really an incredibly stark reversal from what they were talking about doing last fall in 2018.



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7/29/2019

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J.P.Morgan
 Asset Management

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level
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So originally they, in the first part of 2019, came to the conclusion that they really weren't going to raise rates at all and just kind of keep things where they were. And then belief mounted as we moved on through the second quarter that they actually were going to consider cutting rates, and we will find out soon.

There's a lot of talk about the July meeting being the time that they'll cut rates, potentially a quarter percent. So really a pretty incredible reversal there, which takes you back to remembering how difficult it is for any expert, let alone the top economists at the Federal Reserve Board, to try and to figure out what direction the economy may go and what type of policy might be appropriate during that.

There's a fair amount of people that are arguing how is it that an interest rate cut makes sense when we have the stock market near and at breaking all-time highs, we have unemployment at near record lows. What exactly are we cutting rates for? Which is a fair argument. On the flip side of that, though, the Federal Reserve has a dual mandate and that mandate is two things. It's to keep unemployment low, which check, you know, that box is covered, no problem there.

And then the second piece of that is to maintain stable inflation and a slight growth of inflation, usually targeting somewhere around 2%. And inflation has been pretty low, lower than what they thought it would be. And usually there's the belief that if the economy is doing really well and growing and unemployment is really low and people are finding jobs and working, that that kind of generally causes inflation to heat up a little bit.

As wage pressure starts to apply, as companies are having difficulty finding and attracting talent, they tend to sometimes start to pay more for that talent and that kind of ripples its way through the economy from an inflation standpoint. And it just really hasn't happened despite unemployment being so low. So I guess if there is an argument for potentially a cut, if they are viewing danger or softness in the economy from an ongoing trade war and if they're viewing a very low inflation and saying that, listen, if we're trying to tackle that, then I guess maybe that can be their argument for cutting rates.

We of course will see if they actually do it and if what it is that they say when they do it. So that's lingering out there. But that's been good news for bonds. As a reminder, when rates go down, when interest rates go down, bond values go up. They have an inverse relationship. So not only are the bonds that we own continuing to pay their normal interest, which is the majority of the return you get from those investments, but whenever they do fluctuate in value, the direction that they fluctuate as based on what's happening in interest rates. And interest rates have come down pretty substantially over the last six months. And so the value of the bonds have gone up in conjunction with continuing to pay the interest payments that they pay each quarter and each month. So a good recipe for the bond market for the first six months of the year and we will see how things go as we look at the second half of the year.

Long-Term Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	8.98%	1.29%	1.21%	8.81%	7.87%	7.61%
5 Years	10.19%	2.04%	2.49%	5.29%	2.95%	4.43%
10 Years	14.67%	6.75%	5.81%	12.19%	3.90%	4.44%

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Beyond that, if we take a longer term view, we can see that the last year there's been some divergence. US stock market's done pretty well. International and emerging market stocks have not done as well but are positive. Global real estate's done pretty well. The bond market's done well. Like I said, as interest rates have come down. And over the last five and 10 years you can see that specifically for the US stock market, the last 10 years has been phenomenal and well above average. The long term 90 plus year average of the US stock market is approximately 10%. In the last 10 years, the US stock market is averaged about 14 and a half percent. Of course, remember when we're starting, when we look 10 years ago, 10 years ago was near the bottom of the 2008, 2009 stock market crash. So when you're talking

about a starting period, that's a pretty phenomenal time to start. It's easy to say with hindsight, looking backwards, that the last 10 years have been really good.

Of course, I remember in March of 2009, in June of 2009, the experts were all predicting this was going to take 10 or 20 years to just recover to the highs of 2007. And that of course looks like an incredibly foolish prediction when you see where things are at right now.

So the last 10 years have been great for the US stock market. If you were able to predict that that was going to be the best asset class, you would have simply put all your money into that category. I remember again back in middle of 2009 the argument was emerging market stocks were the place to be going forward because they had the highest economic growth, they have demographic growth. When you look at the population of China, the long-standing belief at that moment was if you're going to invest in any stocks, those are the stocks to own. And of course now we look backwards and that didn't do poorly over that period, about 5.8% return annualized over those 10 years, but obviously not the best of the category. So again, if we're following what Wall Street's predictions are, as usual, they're just not particularly good. They're not really something that you can follow with great success.

And those that have been investing with us for a long period of time know we are not in the prediction game. We don't really make any predictions at all, especially about the short term, and we don't need to. The stock market and the bond markets are markets that tend to work over time in the sense of we don't need to make predictions. All we simply need to do is participate.

And so I want to let that marinate in and sink in for a second. Think about if this was a basketball game or a soccer game, we don't need to shoot three pointers and make them, we don't need to dunk, we don't need to score goals, we don't need to do anything other than put on the uniform and stand in the court or stand in the soccer field for however long the game lasts. And in our terms, the game is, through our careers and through our retirement time-span. And all we need to do is participate.

We don't need to do anything special. We will get the returns that we need to make our plans work by just simply showing up.

The Uncommon Average

(continued from page 18)

TUNING IN TO DIFFERENT FREQUENCIES

Despite the year-to-year volatility, investors can potentially increase their chances of having a positive outcome by maintaining a long-term focus. Exhibit 2 documents the historical frequency of positive returns over rolling periods of one, five, and 10 years in the US market. The data show that, while positive performance is never assured, investors' odds improve over longer time horizons.

CONCLUSION

While some investors might find it easy to stay the course in years with above average returns, periods of disappointing results may test an investor's faith in equity markets. Being aware of the range of potential outcomes can help investors remain disciplined, which in the long term can increase the odds of a successful investment experience. What can help investors endure the ups and downs? While there is no silver bullet, understanding how markets work and trusting market prices are good starting points. An asset allocation that aligns with personal risk tolerances and investment goals is also valuable. By thoughtfully considering these and other issues, investors may be better prepared to stay focused on their long-term goals during different market environments.

Exhibit 2: Frequency of Positive Returns in the S&P 500 Index
Overlapping Periods: 1926-2018



In US dollars. From January 1926-December 2018, there are 897 overlapping 10-year periods, 1,057 overlapping 5-year periods, and 1,105 overlapping 1-year periods. The first period starts in January 1926, the second period starts in February 1926, the third in March 1926, and so on. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representations of actual portfolio and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

Source: Dimensional Fund Advisors LP.

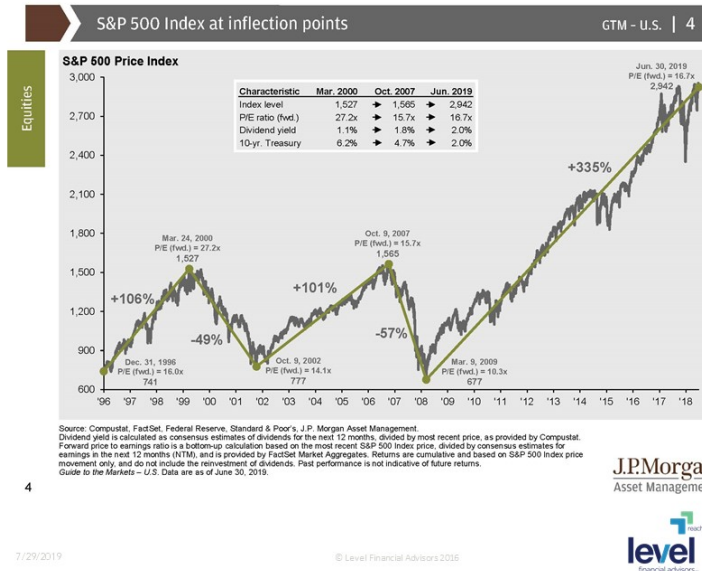
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And so when we look at timeframes for how well the market does, stock market does in general over any type of period, over a one year period, about 75% of the time they're positive. So the vast majority of time, if we just hold on for 12 months, things are probably going to be fine. And we'll probably make money. When look over a five year period, now we're talking about 87% of the time. Markets will provide positive returns over five years.

And if we extend that out over to a 10 year period, now we're talking approximately 95% of the time the stock market has provided positive returns over a 10 year period. Now having said that, we had just a, within the last 20 years, had a period where the market did not make money over 10 years.



And some of you can remember that starting in 1999 through 2009, if we go the end of June, 1999, through the end of June, 2009, we've got S&P500 returns of negative 2% over that period. Now let's remember what happened there. '99 was near the peak of the tech bubble. And of course 10 years later was the bottom of the 2008 crash. So you started at a really peak stock market level and you ended right in the middle of a crash. And so that's how you get a period where you have negative returns over 10 years.

Now having said that, even, here's where we circle back to diversification and how it's really the only free lunch in investing. Over that period, the international stock market actually outperformed the S&P500 by about 5% a year. International stocks earned about 3% annually from 1999 to 2009, so that would be a great justification for saying, why do we own different asset classes?

Because we cannot predict, even though the vast majority of the time the stock market's going to do well, that doesn't always mean that the US stock market would do well. Sometimes that means international stocks will provide the returns. Or like the last 10 years, it'd be the other way around. The US stock market provided the outsized returns and international stocks did okay, but not nearly as well as the US. And that tells us nothing about the next 10 years.

It doesn't mean it's going to turn tomorrow. It could. Maybe it'll turn a year from now. Maybe both will do equally well. But the point is we don't even need to try and predict which one is going to do best. Again, all we need to do is participate, stick with the diversified game plan and we're going to get the returns from whichever one is the one that does best.

The problem and the difficulty of diversifying is you always have a scapegoat to look at over any short term period and say, "Well I wish I didn't own that." So far here in 2019, the first six months, because the vast majority of any investment category has done pretty well, really what you would wish that you had owned none of is really short term bonds, which haven't done poorly, but when you look at the

stock market's earned 17% for the year and global real estate's up 20, and other categories are up 10 and 15%, of course you would say, "Man, I really wish I didn't own any short term bonds."

The other breath, if there is a big stock market crash like there was in the fourth quarter of 2018, then you say, "Well thank goodness that I owned those short term bonds, which held their value and made money and went up in value in those three months while the stock market was declining 20%." So the point I'm making is that you will probably always be disappointed in something no matter what time frame you're looking at your investment portfolio.

If you're truly diversified, there'll be something that you look at and say, "Man, I really wish I didn't own that," but it will constantly change. One year you may be disappointed in global real estate, the next year you might be disappointed in bonds. The next year you might be disappointed in large US stocks. It constantly will change and there's no point of trying to predict which one's going to do best in the short run. If you're truly diversified, that's something that you don't have to play that game.

So again, if you stick with it and participate, then you're very, very likely to do well, especially the longer your time frame. So if I again go back to, let's say you started investing at the worst time of the last 20 years, back at the peak of the tech bubble in 1999. Still, your annualized return over 20 years from 1999 to 2019 would be around 5%. That's what the stock market has earned over that period if you're talking about just pure stocks.

And I know when we talk about the really long run returns of the stock market being around 10%, that's a below average 20 year period, but you still earned something. It's not negative. And I think the thing that is also worth pointing out is the stock market doesn't necessarily owe you anything, right? So if we know that the long term returns of stocks is typically around 10%, that means that you may get something different and you very likely will get something different depending on when it is that you start, and it doesn't owe you anything. You're not guaranteed to get anything. But again, the longer that you participate and the longer you stick with it, the more likely you are to get returns close to those long term averages. Of course, adjusting for the amount of risk you take.

So if you do not have a hundred percent in stocks, you obviously cannot expect you're going to get 100% of the stock market's return.

The Uncommon Average

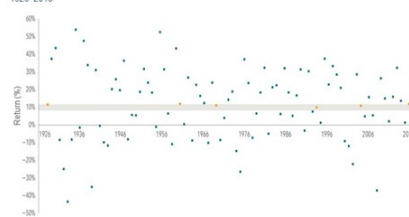
Second Quarter 2019

"I have found that the importance of having an investment philosophy—one that is robust and that you can stick with—cannot be overstated."
 —David Booth

The US stock market has delivered an average annual return of around 10% since 1926. But short-term results may vary, and in any given period stock returns can be positive, negative, or flat. When setting expectations, it's helpful to see the range of outcomes experienced by investors historically. For example, how often have the stock market's annual returns actually aligned with its long-term average?

Exhibit 1 shows calendar year returns for the S&P 500 Index since 1926. The shaded band marks the historical average of 10%, plus or minus 2 percentage points. The S&P 500 Index had a return within this range in only six of the past 93 calendar years. In most years, the index's return was outside of the range—often above or below by a wide margin—with no obvious pattern. For investors, the data highlight the importance of looking beyond average returns and being aware of the range of potential outcomes.

Exhibit 1. S&P 500 Index Annual Returns 1926–2018

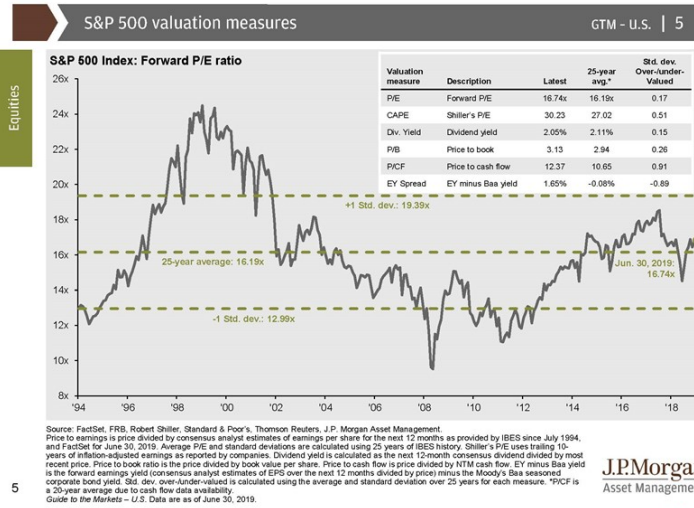


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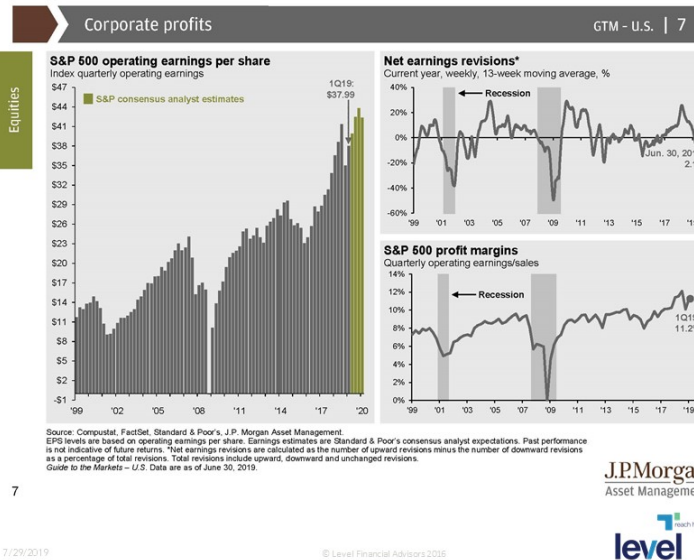
But we have a nice chart here from DFA that we look at that says even though the long term return of the market may be 10%, there have only been a few years that actually had a calendar year return close to 10%. The majority of the time it's something dramatically different. Sometimes as high as 40 or 50% in any calendar year and other times as low as 35 or 40% decline. 2008 being the most recent example of that.

But when you work out the averages, that's how you start to get to the point where your stocks average somewhere near 10% over a really long term period. So we kind of relate to that question or that statement back to a question or statement that we continue to hear and have heard over the last couple of years, which is this market cannot continue to go upwards.

How is it that the market keeps pushing on to new highs, isn't it extremely overvalued and going to crash? Aren't we due for a crash? Isn't a crash right around the corner? The reality is we don't know and you don't know and no one else knows whether that's going to happen, but it doesn't have to happen.



If we look at the valuations of what the stock market looks like compared to history, the historical average, it's slightly above average. Not dramatically above average, slightly above average. And the valuations in the stock market are for the most part justified.

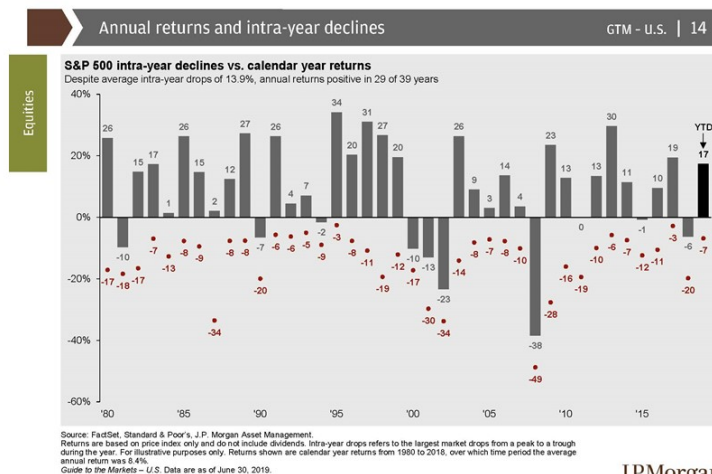


If you look at corporate earnings for the S&P500, they're pretty high, dramatically higher than where they were five years ago. So you would expect that prices would be higher if companies are earning more money. So those things are ... That's the bottom line when it comes to investing in stocks is what are they earning? What type of profits and dividend payments are coming out to investors? And the

share price is going to reflect that as millions of investors trade every second of every trading day reflecting that new information as we get more and more information about how companies are doing, how the economy is doing, those are all reflected in prices almost immediately.

So while, yes, it can kind of seem like, how is it possible that the stock market can continue to go up? The reality is there's no requirement for it to go down either in any one given year or any short term timeframe. So as we think about that, a lot of people will kind of say, "Well I want to invest some more cash, but I'm going to wait for the next pullback." Well buckle up. Who knows how long you're going to wait.

You might wait a week, you might wait 10 months, you might wait three years. We don't know when the pullback will come.



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Asset Management

7/29/2019

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They do typically come a couple of times a year. There'll be a five or 10% pullback. That's totally normal. We've got a 20% pullback, like I said, in the fourth quarter of 2018, and that was still normal. That was not wildly abnormal, not by history's measure anyways. So the best advice we can give you is the best time for you to invest is simply when you have the money.

The Uncommon Average

(continued from page 18)

TUNING IN TO DIFFERENT FREQUENCIES

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Source: Dimensional Fund Advisors LP

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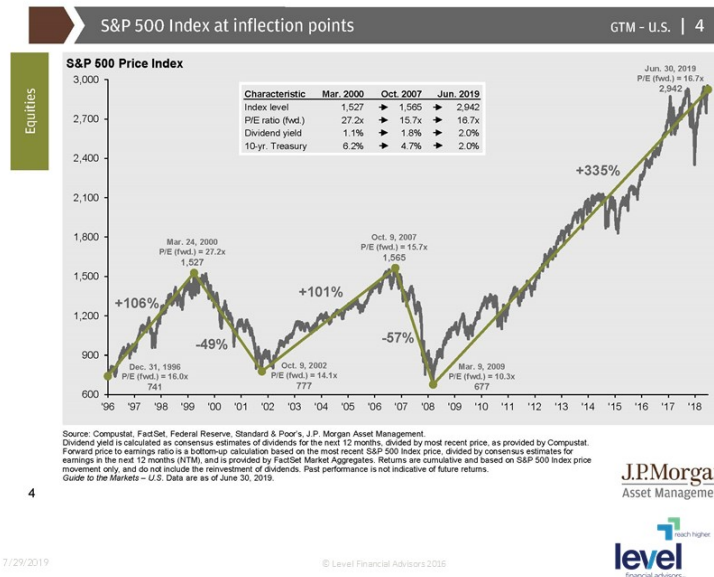
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If we go back to the DFA chart that says what is the percent of time that the stock market's up over a 12 month period, approximately 75% of the time. Those odds are pretty good. That's not a guarantee. It's definitely not a guarantee. But the key is not trying to time the market when the best time to put the money in is, the key is allowing your money to be invested for the longest time possible, which of course means the sooner you put it to work, the better.

And that seems like shouldn't I be more conscious of where prices are currently at? But based on that statement, you're trying to make a prediction of today's overvalued compared, potentially overvalued compared to what tomorrow may be or next month or next quarter or next year. And because you don't know what's going to happen in the next year, no one else does, either, that makes you believe that your best bet is simply just to put that money to work now and give yourself as much time as possible for those dollars to compound and earn. Which is the whole idea of what we're trying to do here. We're putting our money to the investment markets to try and grow it.

So I really want to constantly dispel the idea that a crash must be coming, a recession must be coming, that this stock market cannot continue to go up, that we should wait for some type of pullback to invest cash.

The market just simply doesn't work that way. That's not the way it works. While on average there are pullbacks and there are periods that in hindsight look really, really good to start investing, I'll circle back again to the 2008, 2009 crash. If we look backwards, March of 2009 was the absolute best time to start investing.



In the last 10 or 15 years, when we look at that. But if I had said, "Hey, Mr. Smith, you have a lot of cash in the bank, let's go put a bunch of it to work now that the stock market has just gone down 35% and there are predictions that the entire financial system is going to collapse." It's going to be extremely difficult for a person to get on board with that game plan. Because we're humans, our human nature is we have a recency bias. Whatever has recently happened we think is going to keep happening, and if the stock market just crashed 35%, nobody feels particularly good about buying stocks even though in the long run it's probably a really, really good idea to do that.

So your best bet is simply to take all of those predictions off the table and just say, "Wait a minute. I know if I just stick with it and participate in the investment markets, I don't have to make predictions about when things are going to be good or bad. If I just simply participate and I stick around and stick to that game plan for long enough, I'm very, very likely to be successful."

So we kind of like to just circle back to that. I try and incorporate a lot of the questions that I hear from clients and people that I talk to because it's likely that more people have those questions. If I hear the same question a couple of times, it's very likely a lot of people have that same type of question or concern.

So the second quarter, in recap, was pretty good. A bit of a roller coaster, but pretty good. Somewhat across the board really. So things have been going well on that front.

Hamburg Office

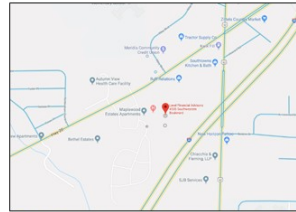
4535 Southwestern Blvd, Suite 710A, Hamburg NY 14075

Using Thruway

- Take 90 East or West to Exit 56
- Turn Right onto NY 179
- Turn Left at the first light – US-62 South
- At the traffic circle, continue straight
- Turn right onto route 20 West (Southwestern Blvd)
- Turn Left into North Forest Southtowns Medical and Professional Park
- Suite 710A is to the right

From Points east (East Aurora, Orchard Park)

- Take Route 20A West
- Turn Left into North Forest Southtowns Medical and Professional Park
- Suite 710A is to the right



7/29/2019

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I do also want to point out that our Hamburg office is now, or will be open as of July 15th. So if that office is close to you and you'd like to meet with us there for your annual review meeting, then by all means, let our staff know or your advisor know when you're ready to meet that you want to meet at the new Hamburg office.



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Other than that, I hope everybody enjoys the summer and we'll talk to you in a couple of months to recap what happened in the third quarter. Take care.

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