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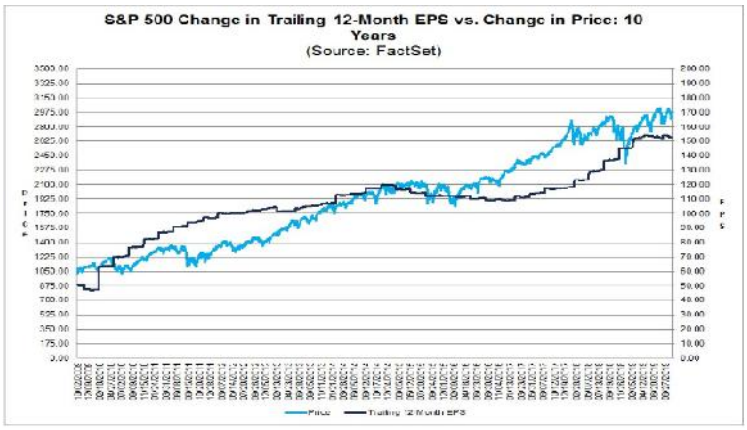
Archer 2019 4th Quarter Update and Outlook:

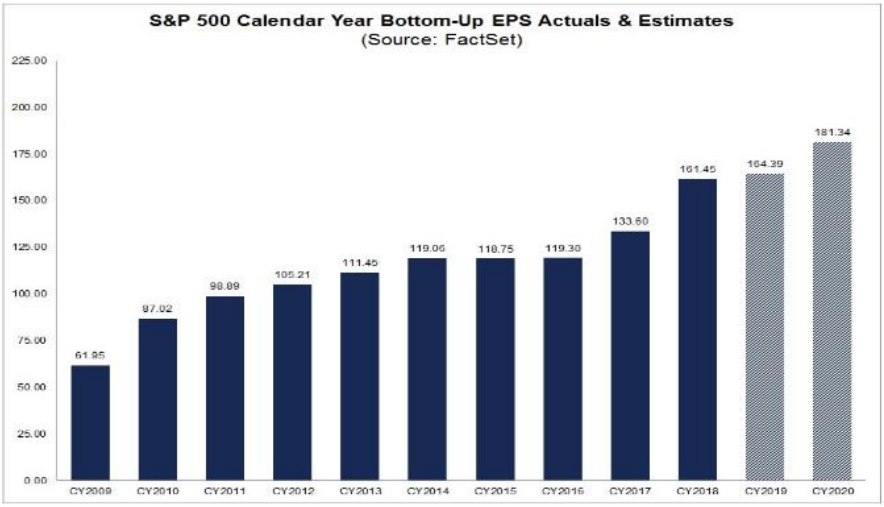
How much time do we have?

"In politics, the short term is crystal clear and the long term is murky; in the stock market, the short term is murky, but the long term is crystal clear."
-David Gergen.

Last week markets dealt with a barrage of widely anticipated news releases offering insight into the state of the US economy. While the Manufacturing ISM report was disappointing and showed continued weakening, the good news is the Service sector, which is the predominant component of GDP, is still growing. The Jobs report was somewhat weaker than expected, but still positive. The weak read on manufacturing scared quite a few folks to the sidelines and they sold off their stocks, only to rebuy them later in the week as the jobs report once again showed strength. Inflation appears to continue to be held in check as well. So what should we worry about? Politics? In most instances we might say politics don't really matter, but we are in the thrust of the political season and a news cycle only lasts for 20 minutes before the next big story. Given the influence on business confidence, the market is most keenly tuned in to news surrounding potential trade and tariff deals. So far, the market is largely shrugging off most of the political bombshells being lobbed about Washington. It is tough to decipher who to believe in the news. You have one cable channel vs. another with completely opposite takes of what is going on with the country. Instead, we need to turn to earnings. Earnings are at the core of whether the market moves higher or lower. If earnings move higher, we can expect the market to move with them and vice versa.



The problem we face is the third quarter is expected by FactSet to report earnings decline of -4.1%. This will be three straight quarters of decline which we also saw in Q4 2015 through Q2 2016. During this time, the market gyrated but remained fairly flat until we saw an increase in earnings. Earnings growth is not constant, but ebbs and flows over time bringing the market price along with it. We do expect earnings growth to return in 2020, once we have more clarity on Chinese trade and our elections are behind us.



Last quarter we discussed Value vs. Growth. In fact, we have discussed this quite a bit over the last several years. We have recently seen some signs of life from value stocks in the month of September. If earnings do subside a bit for another quarter or more, we think our value tilt will look very attractive. Time will tell. You can see the recent uptick in the following chart.

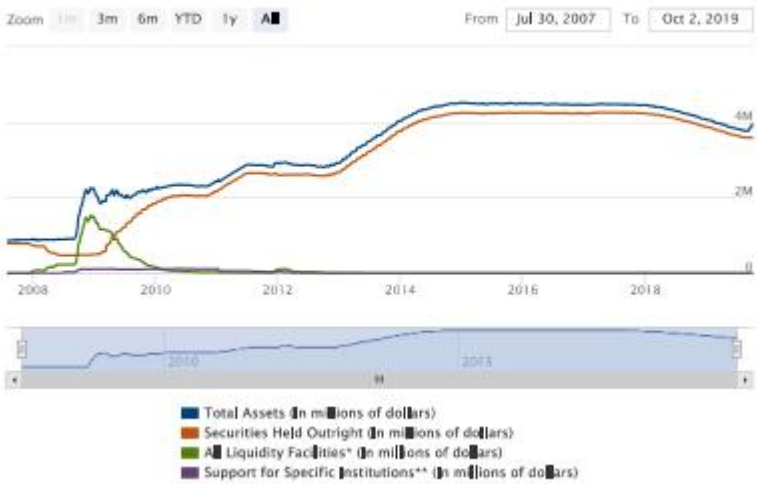
In the last two quarters we discussed the stock market doubling and how this would happen. We are beginning to wrap up 2019 and we do not envision the next catalyst propelling the market much higher for the remainder of 2019. However, if earnings come in similar to what is expected in the second chart in this newsletter, and interest rates continue to decline, we are likely to see average returns typical of an election year in 2020.

	Election Year	First Year After Election	Second Year After Election	Pre-Election Year
Number of Up Years	**14**	**10**	**11**	**16**
Number of Down Years	**3**	**7**	**7**	**2**
Average Return	**6.9%**	**7.4%**	**6.3%**	**16.6%**

Dates are 1/1/1950 through Current 7/9/2019

Why would we expect market interest rates to decline? The Fed has lowered rates lately, but not nearly as much as the President would like. It is difficult to recall all of his tweets, but the President has been adamant in his desire for the Fed to aggressively cut rates. We believe that the area where the Fed can make a difference in the interest rate environment is with its own balance sheet. The Fed has been unwinding its balance sheet by not buying nearly as much debt and letting maturities run off. When they are not buying, it creates much more debt in the open market to purchase thus moving rates a bit higher. If they go back to maintaining a constant balance sheet, rates may move lower and thus create

more opportunities in the stock market. It seems odd to say that rates could move even lower, but look at what debt in other countries who are not as stable as the US are doing. Some even have negative interest rates to try and make the banks lend to companies to expand their economies.



Finally, as many express concern about the age one of the longest bull markets in history, we share this last chart showing that we may just be in a secular bull market and that this market can move much higher. This would support the theory that the stock market still has room to double. If you look at the chart, the actual bull market does not seem overly long. There are plenty of new technologies which can still spur our economy with automobiles, housing, artificial intelligence, etc.

Looking Ahead:

For the rest of 2019, we see a flat market with more up and down gyrations as news will be flowing faster than ever. As we progress through the political news cycles, we can expect interest rates to fall lower and a pending deal with China to be closer. This news coupled with a rise in energy prices should help to move earnings on the S&P 500 higher in 2020 (albeit a small increase) and thus lift the market higher. We would expect markets to fall in line with past election cycle first years as the rhetoric will overshadow the growth in revenues and earnings of our largest companies here in the United States.

Regards,

The Archer Team