Market Review

FOURTH QUARTER 2018

THE POSITIVE

Economic fundamentals remain strong, highlighted by robust corporate earnings growth that's expected to continue in 2019. Also, the labor market is healthy with near-record low unemployment and sustained job growth.

THE NEGATIVE

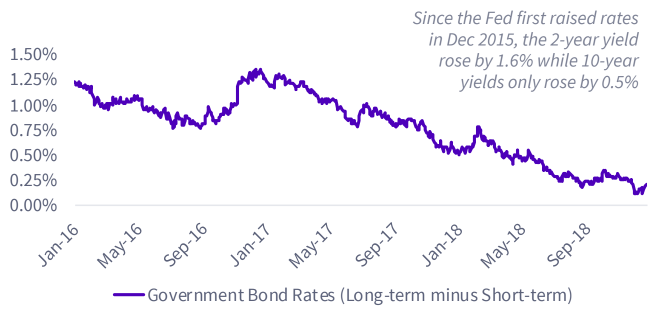
Global stock markets fell with heightened political uncertainty, rising interest rates, and dampening investor sentiment. The U.S. led the decline, while international markets fared better, outperforming the U.S. by 2.5%.

THE BIG GAMBIT

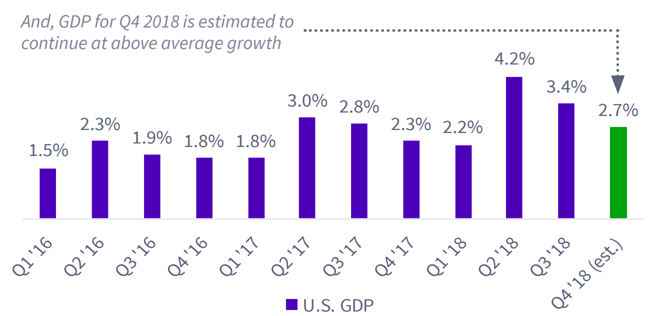
Global trade is on trial in the European Union, as the United Kingdom is scheduled to leave its 45-year old partnership with its neighbors on March 29, a scenario that might be avoided by a last-minute change of heart.

Big Trends We're Monitoring

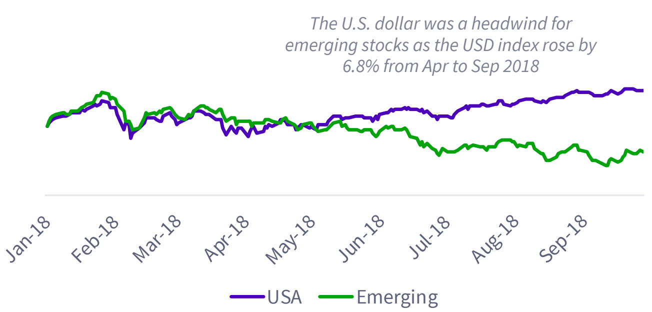
Long-term U.S. bond rates are nearly the same as short-term rates, a potential recession signal



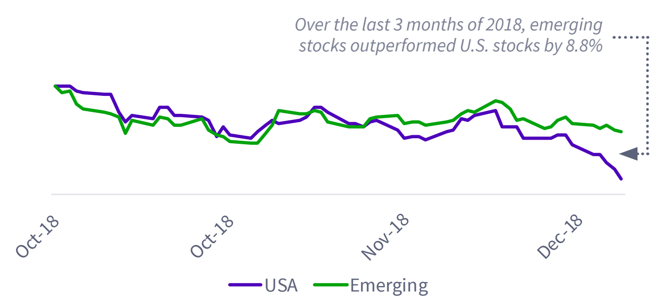
But, the economy continues to grow, led by consumers who have contributed 1.8% to GDP on average since 2016



Emerging stocks underperformed U.S. stocks in the middle of 2018, fueled by a stronger U.S. dollar



But, later into 2018, emerging stocks provided diversification benefits easing the fall in U.S. stocks



Sources: Board of Governors of the Federal Reserve System, Federal Reserve Bank of Atlanta, U.S. Bureau of Economic Analysis, MSCI Inc. Contact United Income for more details.

united income

Dispatches from the Desk

Davey Quinn, SVP of Investment Management

Since the U.S. recession a decade ago, stock markets have been on a historic bull run, averaging 15% annual returns in the U.S. between 2009 through 2017[1]. In 2018, however, markets across the globe began to sputter. Given that, it's worth asking what we think the future holds, and whether there's wealth to be made in 2019. To address these questions, we will examine today's economic picture and how the cutting-edge United Income investment process and technology can help build wealth for members[2] regardless of what markets throw our way.

IMPLICATIONS FOR THE ECONOMY

Setting aside the daily drama in much of the financial news, the data continues to point to a growing U.S. economy in 2019. Some of the indicators we look at that are trending upward include:

1. Job growth is strong, which means U.S. employers are adding more people to their payroll than are currently employed. 2.58 million people were added to non-farm payrolls in 2018[3].
2. Unemployment is near record lows, which means nearly everyone in the U.S. that wants a job is able to find one. The unemployment rate in the U.S. touched 3.7% in November 2018 which is the lowest since 1969[4].
3. Wage growth continues to rise, which means U.S. workers are being paid more than in the past, giving them more money to spend in the economy. Consumer spending makes up 68% of the U.S. economy[5] and wages grew by 3.1% annually at the end of November 2018. After taking inflation into account, wages still grew by 0.8% over the same time period[6].
4. Heavy-weight truck sales (a key leading economic indicator) have been increasing, which means U.S. companies expect to ship more goods and services in the future than they have in the past. Sales increased by an average of 18.2% year-over-year throughout 2018[7].
5. Consumer expectations about the future are also still positive, which means consumers are not likely to slow their spending. The consumer sentiment index from University of Michigan increased annually by 2.5% in December 2018[8].

This does not suggest that there isn't a chance for a slowdown in the economy ahead. Some of the indicators we look at that are trending downward include:

1. Corporate profits grew by 20.3% in 2018 but are projected to only grow by 7.9% in 2019[9], as some of the one-time benefits from tax reform evaporate in 2019.
2. Investor sentiment, weighed down by political uncertainty, trade wars, and rising interest rates, is deteriorating, highlighted by the fact that the yield on short-term government bonds is almost the same as those on long-term bonds (meaning investors are expecting falling interest rates in the future to accommodate for potential economic weakness).
3. This trend, in turn, could cause investors and businesses to overlook the strong fundamentals and become more pessimistic, perhaps triggering a recession in late 2019 or 2020. Historically, consumers have been susceptible to wealth effects and reduce spending accordingly[10], which can be a catalyst for recessions.

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Please see important disclosures and endnotes at the end of this market review.

Our Verdict

After many years of robust economic and stock market growth, the U.S. is due for a return to slowing or negative growth. This outcome is made more likely by the tactics being used to reform global trade practices and the unnerving political uncertainty. Nonetheless, we believe that the odds of this happening in 2019 remain unlikely, particularly if the self-inflicted economic headwinds are lifted.

IMPLICATIONS FOR YOUR PORTFOLIO

Most investors may find negative returns when they open their 2018 year-end statements, likely for the first time in 10 years. The U.S. stock market dropped by 7.8% in 2018 and international markets fared worse, falling by 17.1%. To put that into context, the U.S. stock market rose by 187% from 2009 to the beginning of 2018 and international markets rose by 60% over the same period[11]. It's uncomfortable to face losses after such a historic run; it's also concerning when the market changes in value rapidly – and when TV pundits are using words like "recession."

Unfortunately, forecasting near-term investment returns is like weather reporting – there is a high degree of uncertainty, forecasts are often wrong, and TV and newsletter pundits that stir up greed and alarm on a daily basis are rarely held accountable. It's also important to keep in mind that the news you read or see is focused just on recent events and typically ignores events that happened in the not too distant past. Instead of making judgement calls based on the hyperbolic news cycle, focus on long-term investing principles, which can help tune out pundit's narrow perspective. This can improve your ability to identify opportunities and build wealth over the long-run.

For these reasons, we go way past the headlines when it comes to making investment decisions and instead take a holistic, data-oriented approach to building wealth. This is made possible by our cutting-edge technology, since technology can process more information than the human mind can on its own. Instead of panicking when confronted with volatile prices, our technology unemotionally seeks opportunities to keep your portfolio on track with your strategic financial plan. It is also why we are able to simultaneously integrate the proven investment strategies of greats like Warren Buffett and Jack Bogle into our investment approach[12].

Our Verdict

Looking ahead to 2019, investment markets should reward investors for bearing risk, though volatility and occasionally losses may arise. This is part of healthy, functioning markets and a balanced, strategic approach can create transformative opportunities for long-term wealth creation. As Warren Buffett famously said, "Be fearful when others are greedy and greedy when others are fearful." Here at United Income, Buffett's advice inspires a lot of excitement about the prospects ahead in 2019, given what may be another highly volatile year.

IMPLICATIONS FOR OUR INVESTMENT STRATEGY

Cheaper stock prices today can result in more attractive long-term returns, but no one likes losing money in the meantime. That is one reason why we invented our advanced technology – we aim to build wealth for our members regardless of what's going on in markets.

One way we build wealth with our patent-pending United Income technology is to seek opportunities to reduce taxes for our members. Tax-saving strategies are particularly valuable to investors in mar-

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kets like 2018 (and we expect in 2019), since tax-saving opportunities tend to increase as markets fall. In taxable accounts, for instance, our tax-loss trading algorithms scan your portfolio to potentially sell securities with losses and lock in tax benefits today. Following the sale, we promptly invest the proceeds to keep your portfolio on track. These losses can be used to offset income on your tax bill or offset realized gains[13].

Other tax-saving strategies we pursue are focused on taking advantage of the many different tax rules and codes. Strategies we employ for our members include converting tax-deferred accounts to tax-exempt as a means to lower taxes in retirement, investing differently across account types based on their taxability, trading intelligently to minimize taxes from investing, and maximizing your tax savings from charitable giving. Given the popularity and effectiveness of these strategies, as well as the scope of our services compared to many other wealth management solutions, we plan to expand the level of these service to provide you even more opportunities to save in the future.

Another way we build wealth for our members in the short-term is with our dynamic rebalancing technology. This approach examines our member's portfolios each day for opportunities to capture value by making trades, which are free to you, that maintain your asset allocation. During this process, our algorithms tell us to sell appreciated securities and buy securities that have dropped in value. In this way, we can help build your wealth by taking advantage of short-term market movements.

This highlights a third approach we take to building wealth for you: keeping fees low. So far, 91% of our members that reported their prior advisory fees to us have saved on advisory fees by moving to the United Income platform[14], even though many have received new wealth-building services and technology not provided to them previously. We are very proud of those results because it means we have expanded value for our members, while also lowering their costs. The investment products we use can also be less expensive than mutual funds: a 60% stock/40% bond portfolio comprised of the ETFs we use to build member portfolios can save 0.30% per year in expense costs, relative to the average mutual fund[15].

Finally, we build wealth for our members in up and down markets by diversifying across proven, long-term investment strategies. By diversifying across strategies, we can increase the likelihood that your portfolio contains an outperforming strategy. No one reliably knows which strategy will outperform ahead of time – only 1 out of 7 U.S. equity funds outperformed their benchmark over the last 10 years as of mid-2018, and those that have rarely repeat the feat[16]. Instead of trying to outguess markets, we build member portfolios using multiple proven strategies including value, quality, momentum, defensive equity, and small-cap. We found that this Diversified Investment Strategy Approach has outperformed a Market Capitalization Approach by over 2% per year, from 1999 to 2017, in a 60% stock/40% bond portfolio[17].

Our Verdict

Investment markets will go up and down and your wealth manager is prepared for both scenarios. At United Income, we built our various strategies, technology and process with our members at the very center. Our mission is to build wealth for our members, simply because it is the right thing to do.

If you would like to learn more about the methods United Income uses to help build wealth in all market environments, please contact your wealth manager today – or call (202) 558-2015.

Member Results

At United Income, we are always focused on helping our members generate wealth. During periods of market uncertainty, each additional dollar of wealth matters, so we aim to generate wealth from more than just investment returns. By focusing on tax savings, increasing the value of your retirement benefits, and keeping costs low, we can generate a more sustainable wealth return for you, our member.

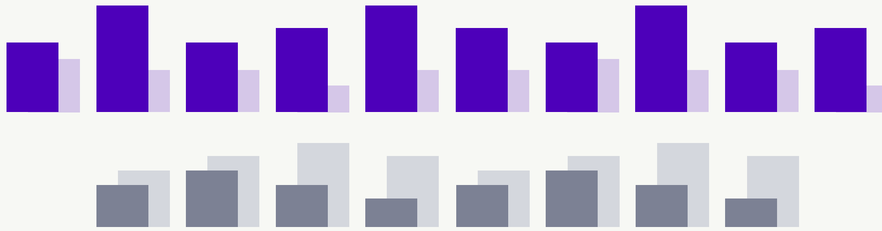
Here you will find data highlighting the power of this unified approach.

On the Horizon

For our full-service members, keep your eye out for an email or phone call from your wealth manager to discuss your financial plan, investment strategy, or concierge needs. We fundamentally believe that wealth management is best delivered by world-class technology integrated with experienced financial experts. We have built technology to improve accuracy and outcomes for our members, and our wealth management team goes the extra mile to ensure your needs are met.

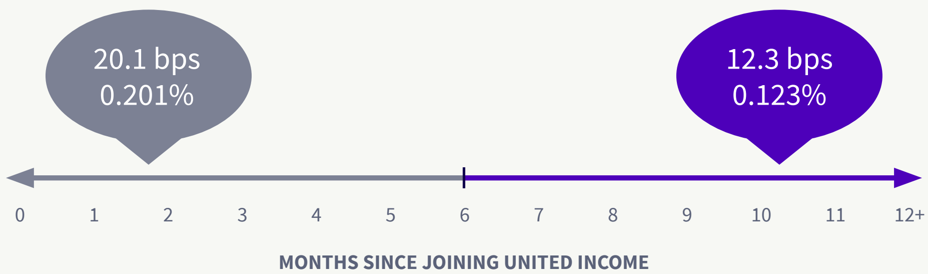
HIGHER INVESTMENT RETURNS

10 of the 18 ETFs that we use to build portfolios in member accounts have outperformed relevant ETF benchmarks over the trailing 12 months.



LOWER TAXES

For members that joined United Income in the last 6 months, the average tax savings[18] for the quarter was 20.1 bps or 0.201%. For members that joined United Income more than 6 months ago, the average tax savings for the quarter was 12.3 bps or 0.123%. We are currently forecasting this will add up to an average of $14,904 in extra wealth for each $100,000 invested, or an estimated tax savings of 14.9%, in taxable accounts for the average member over their lifetime[19].



LOWER FEES

On average, members that shared their previous advisor's fee have saved $140 per month, or $1,681 per year, in advisory fees. We are currently forecasting this will add up to an average of $38,640 in extra wealth for the average member over their lifetime[20]. In addition, a 60% stock/40% bond portfolio comprised of the ETFs we use to build member portfolios can save 0.30% per year in expense costs, relative to the average mutual fund[21]. We are currently forecasting this will add up to $6,900 in extra wealth for each $100,000 invested for the average member over their lifetime[22].

$140 *per month*

$1,681 *per year*

$38,640 *lifetime*

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Performance

AS OF DEC 31, 2018

EQUITY	TRAILING 3 MONTHS	TRAILING 12 MONTHS
VV: Vanguard Large-Cap ETF (benchmark)	*-13.50%*	*-4.44%*
SCHX: Schwab US Large-Cap ETF	-13.69%	-4.52%
USMV: iShares Edge MSCI Min Vol USA ETF	-7.56%	1.36%
QUAL: iShares Edge MSCI USA Quality Factor ETF	-14.71%	-5.77%
VLUE: iShares Edge MSCI USA Value Factor ETF	-16.92%	-11.18%
MTUM: iShares Edge MSCI USA Momentum Factor ETF	-15.61%	-1.77%
VB: Vanguard Small-Cap ETF (benchmark)	*-18.33%*	*-9.30%*
XSLV: Invesco S&P Small Cap Low Volatility ETF	-12.63%	-5.33%
FNDA: Schwab Fundamental US Small Company Index ETF	-18.87%	-12.10%
VEA: Vanguard Developed Markets ETF (benchmark)	*-13.05%*	*-14.47%*
GSIE: Goldman Sachs ActiveBeta International Equity ETF	-13.15%	-12.93%
FNDC: Schwab Fundamental International Small Company Index ETF	-15.45%	-18.77%
VWO: Vanguard Emerging Markets ETF (benchmark)	*-6.30%*	*-14.57%*
GEM: Goldman Sachs ActiveBeta Emerging Markets Equity ETF	-7.12%	-13.51%
DGS: WisdomTree Emerging Markets Small Cap Dividend Fund ETF	-7.32%	-15.39%

FIXED INCOME	TRAILING 3 MONTHS	TRAILING 12 MONTHS
BND: Vanguard Total Bond Market ETF (benchmark)	*1.65%*	*-0.04%*
BND: Vanguard Total Bond Market ETF (also used in member accounts)	1.65%	-0.04%
FLRN: SPDR Bloomberg Barclays Investment Grade Floating Rate ETF	-0.23%	1.58%
VGSH: Vanguard Short-Term Treasury ETF	1.32%	1.48%
VGIT: Vanguard Intermediate-Term Treasury ETF	2.92%	1.31%
VCIT: Vanguard Intermediate-Term Corporate Bond ETF	0.33%	-1.75%
VTIP: Vanguard Short-Term Inflation-Protected Securities ETF	-0.26%	0.54%
BNDX: Vanguard Total International Bond ETF	1.87%	2.96%
EMB: iShares J.P. Morgan USD Emerging Markets Bond ETF	-1.70%	-5.67%

All data is rounded to the nearest hundredth of a percent. Data is trailing total returns provided by Morningstar, Inc. Past performance is not indicative of future results.

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Endnotes

1. Measured using MSCI USA Index (gross).
2. We refer to clients of the United Income Wrap Program as our "members." Performance information regarding our members in this letter does not include information regarding clients of our Traditional Portfolio Management Services, our Corporate Sponsored Retirement Plan Consulting Services, or our Traditional Wrap Fee Program .
3. U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm Payrolls [PAYEMS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PAYEMS, Jan 4, 2019.
4. U.S. Bureau of Labor Statistics, Civilian Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE, Dec 31, 2018.
5. Kimberly Amadeo, "Consumer Spending Trends and Current Statistics", The Balance, Dec 22, 2018; https://www.thebalance.com/consumer-spending-trends-and-current-statistics-3305916
6. U.S. Bureau of Labor Statistics, Average Hourly Earnings of All Employees: Total Private [CES0500000003] and Consumer Price Index for All Urban Consumers: All Items Less Food and Energy [CPILFESL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CES0500000003 and https://fred.stlouisfed.org/series/CPILFESL, Dec 31, 2018.
7. U.S. Bureau of Economic Analysis, Motor Vehicle Retail Sales: Heavy Weight Trucks [HTRUCKSSAAR], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/HTRUCKSSAAR, Dec 31, 2018.
8. University of Michigan, "Survey of Consumers", Dec 2018; http://www.sca.isr.umich.edu/
9. John Butters, "Earnings Insight", Factset, Dec 21, 2018; https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_122118.pdf
10. Daniel Cooper and Karen Dynan, "Wealth Effects and Macroeconomic Dynamics", Journal of Economic Surveys (2016) Vol. 30, No. 1, pp. 34–55
11. As measured by the MSCI USA Index (gross) and MSCI ACWI ex-USA Index (gross).
12. United Income is not affiliated with Warren Buffett or Jack Bogle, and neither of these individuals have been, or are, involved in any way in designing or implementing United Income's investment portfolio strategy or approach.
13. United Income does not represent in any manner that its tax-loss harvesting strategy will result in any particular tax consequence or that specific benefits will be obtained for any individual investor. The tax-loss harvesting service is not intended as tax advice. Members should consult their personal tax advisor as to whether tax-loss harvesting is a suitable strategy, given the member's particular circumstances. The tax consequences of tax-loss harvesting are complex and uncertain and may be challenged by the IRS or any other tax authority. The internal revenue code, as well as judicial and administrative interpretations of it, are subject to change and could have a material impact on the consequence of United Income's tax-loss harvesting approach.
14. Based on members that told us about their previous advisor fees, data as of November 30, 2018.
15. Morningstar US Fund Fee Study, 2016. Average mutual fund fee calculated based on the asset-weighted mutual fund fee for a portfolio of 30% US Equities, 30% International Equities, and 40% Taxable Bonds, which is the same allocation a United Income member electing 60% equity and 40% fixed income would receive in their portfolio.
16. Aye M. Soe, Berlinda Liu, "SPIVA U.S. Mid-Year 2018 Scorecard", S&P Global, Jun 30, 2018; https://us.spindices.com/documents/spiva/spiva-us-mid-year-2018.pdf
17. Davey Quinn, "Our Investment Philosophy", United Income, May 2018. Past performance is NOT an indicator of future results. Information based on backtested analysis. Backtested performance is developed with the benefit of hindsight and has inherent limitations. Results do not reflect actual trading in accounts or the effect of material economic and market factors on the decision-making process. Actual performance may differ significantly from backtested performance.
18. Estimated tax savings are measured as 17.5% x (long-term losses realized) + 24% x (short-term losses realized) across all taxable member accounts divided by ending account balances. These realized losses are reflective of trades where cost basis information was available and recorded within United Income. These rates reflect a middle-tier of the tax rates that are applicable to members. Individual member tax rates could be higher or lower than the rates we use in our estimated tax savings calculations. Actual tax savings will depend on the specific circumstances of each member and may differ significantly from amounts calculated. United Income does not represent in any manner that its tax-loss harvesting strategy will result in any particular tax consequence or that specific benefits will be obtained for any individual investor. The tax-loss harvesting service is not intended as tax advice. Members should consult their personal tax advisor as to whether tax-loss harvesting is a suitable strategy, given the member's particular circumstances. The tax consequences of tax-loss harvesting are complex and uncertain and may be challenged by the IRS or any other tax authority. The internal revenue code, as well as judicial and administrative interpretations of it, are subject to change and could have a material impact on the consequence of United Income's tax-loss harvesting approach. There is limited authority governing whether an ETF is "substantially identical" to another ETF for the purpose of the wash sale rule. Accordingly, there can be no assurance regarding how the IRS would resolve this question in specific contexts. There are no guarantees that a portfolio employing these or any other strategy will outperform a portfolio that does not engage in such strategies. Past performance does not guarantee future results.
19. To estimate lifetime tax savings, we average the two quarterly tax savings percentages and multiply that figure by 4 to get an annual tax savings percentage estimate. Then, we multiply the annual tax savings percentage estimate by 23, assuming the average member is defined as 60 years old with life expectancy of 83 years old, which is based on Social Security's Actual Life Table; https://www.ssa.gov/oact/STATS/table4c6.html. Past performance is NOT an indicator of future results.
20. To estimate lifetime fee savings, we multiply the average monthly fee savings estimate by 12 to get an annual fee savings estimate. Then, we multiply the annual fee savings estimate by 23, assuming the average member is defined as 60 years old with life expectancy of 83 years old, based on Social Security's Actual Life Table; https://www.ssa.gov/oact/STATS/table4c6.html with no assumed account balance appreciation or decline. Past performance is NOT an indicator of future results.
21. See xiv above
22. To estimate lifetime expense cost savings, we multiply the estimated annual 60% stock/40% bond expense cost savings compared to a similar mutual fund by 23, assuming the average member is defined as 60 years old with life expectancy of 83 years old, based on Social Security's Actual Life Table; https://www.ssa.gov/oact/STATS/table4c6.html and account balances are estimated to remain flat. Past performance is NOT an indicator of future results.