GEMMER
ASSET MANAGEMENT LLC
LOCAL PARTNER
GLOBAL INVESTING

WHERE DO WE GO FROM HERE?

JANUARY 9TH, 2019

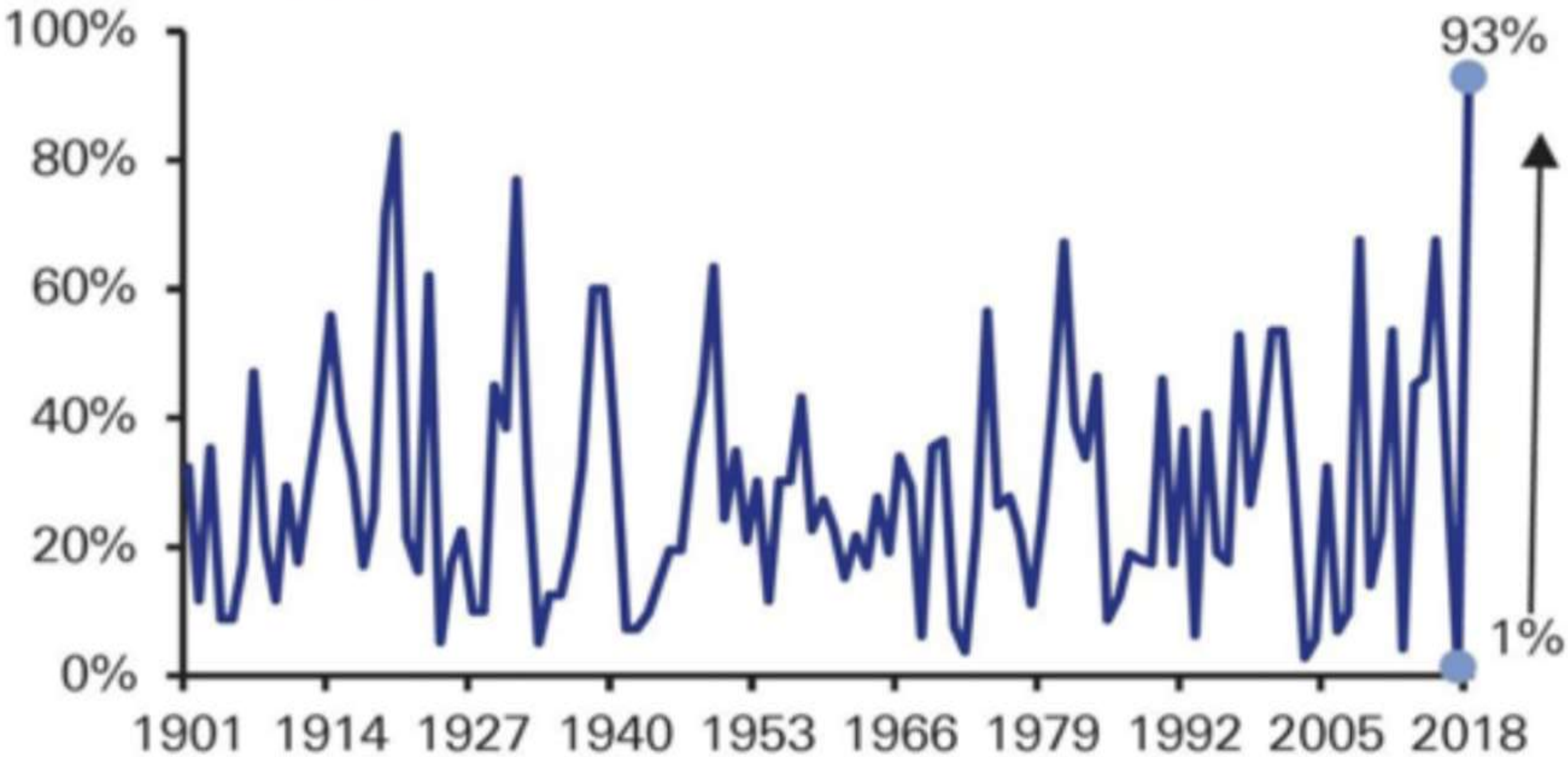
MY GOAL TODAY…….

AGENDA

1. Looking Back at 2018
2. Three Types of Bear Markets
3. The Economic Backdrop
4. Two Paths Forward
5. Q&A

TOUGH YEAR TO MAKE MONEY #1

Figure 2: Percentage of Assets with a Negative Total Return in USD terms



Source: Deutsche Bank, Bloomberg Finance LP, GFD.

THE STREAK COMES TO AN END…

S&P 500: Total Returns (1928 - 2018)

Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	43.8%	1946	-8.4%	1964	16.4%	1982	20.4%	2000	-9.1%
1929	-8.3%	1947	5.2%	1965	12.4%	1983	22.3%	2001	-11.9%
1930	-25.1%	1948	5.7%	1966	-10.0%	1984	6.1%	2002	-22.1%
1931	-43.8%	1949	18.3%	1967	23.8%	1985	31.2%	2003	28.7%
1932	-8.6%	1950	30.8%	1968	10.8%	1986	18.5%	2004	10.9%
1933	50.0%	1951	23.7%	1969	-8.2%	1987	5.8%	2005	4.9%
1934	-1.2%	1952	18.2%	1970	3.6%	1988	16.6%	2006	15.8%
1935	46.7%	1953	-1.2%	1971	14.2%	1989	31.7%	2007	5.5%
1936	31.9%	1954	52.6%	1972	18.8%	1990	-3.1%	2008	-37.0%
1937	-35.3%	1955	32.6%	1973	-14.3%	1991	30.5%	2009	26.5%
1938	29.3%	1956	7.4%	1974	-25.9%	1992	7.6%	2010	15.1%
1939	-1.1%	1957	-10.5%	1975	37.0%	1993	10.1%	2011	2.1%
1940	-10.7%	1958	43.7%	1976	23.8%	1994	1.3%	2012	16.0%
1941	-12.8%	1959	12.1%	1977	-7.0%	1995	37.6%	2013	32.4%
1942	19.2%	1960	0.3%	1978	6.5%	1996	23.0%	2014	13.7%
1943	25.1%	1961	26.6%	1979	18.5%	1997	33.4%	2015	1.4%
1944	19.0%	1962	-8.8%	1980	31.7%	1998	28.6%	2016	12.0%
1945	35.8%	1963	22.6%	1981	-4.7%	1999	21.0%	2017	21.8%
								2018	-4.4%

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…BUT NOT AS POWERFUL AS THE 90'S

S&P 500 (Total Return): Longest Consecutive Positive Calendar Year Streaks (1928 - 2018)

1982	20.4%	1991	30.2%	2009	25.9%
1983	22.3%	1992	7.5%	2010	14.8%
1984	6.1%	1993	10.0%	2011	2.1%
1985	31.2%	1994	1.3%	2012	15.9%
1986	18.5%	1995	37.2%	2013	32.1%
1987	5.8%	1996	22.7%	2014	13.5%
1988	16.5%	1997	33.1%	2015	1.4%
1989	31.5%	1998	28.3%	2016	12.0%
		1999	20.9%	2017	21.8%
Cumulative	294%	Cumulative	442%	Cumulative	255%
Annualized	19%	Annualized	21%	Annualized	15%
Streak	8 Straight	Streak	9 Straight	Streak	9 Straight

Pension Partners
THE ATAC ROTATION MANAGER

@CharlieBilello

WHEN DOVES CRY AND BUBBLES POP

Cryptocurrency	2018 Return		Cryptocurrency	2018 Return
ICON	-95.9%		IOTA	-90.4%
Qtum	-95.9%		NEO	-89.6%
Bitcoin Gold	-94.2%		zCash	-88.5%
Cardano	-94.0%		Litecoin	-85.7%
Lisk	-93.8%		Ethereum Classic	-81.6%
NEM	-93.5%		Ethereum	-81.1%
Bitcoin Cash	-92.9%		Stellar	-76.1%
OmiseGO	-92.3%		VeChain	-75.0%
Dash	-91.9%		Bitcoin	-71.1%
Source: Bloomberg				

THREE TYPES OF BEAR MARKETS

THREE TYPES OF BEAR MARKETS

1. Cyclical Bear Markets
2. Structural Bear Markets
3. Event Driven Bear Markets

CYCLICAL BEAR MARKET

- Economy overheats
- Fed is raising rates to tackle inflation
- Ultimately we experience a recession
- Profits typically decline

CYCLICAL BEAR MARKET

	Length (m)	Decline	Time to Recover (m)	Change in Profits
May 46 – Feb 48	21	-25%	27	---
Nov 68 – May 70	18	-36%	21	-13%
Sep 76 – Mar 78	17	-19%	17	+14%
Nov 80 – Aug 82	20	-27%	3	-19%
July 90 – Oct 90	3	-20%	4	-37%
Average	***16***	***-25%***	***14***	***-14%***
Source: Bloomberg				

STRUCTURAL BEAR MARKET

- Triggered by structural imbalances, or
- Financial bubbles
- Deep recession and deflation follows
- Deep profits recession as well

STRUCTURAL BEAR MARKET

	Length (m)	Decline	Time to Recover (m)	Change in Profits
Sep 29 – Jun 32	33	-85%	266	---
Feb 37 – Apr 42	62	-57%	48	---
Jan 73 – Oct 74	21	-48%	69	-15%
Mar 00 – Oct 02	30	-49%	56	-54%
Oct 07 – Mar 08	17	-57%	49	-92%
Average	***33***	***-59%***	***98***	***-54%***
Source: Bloomberg				

EVENT DRIVEN BEAR MARKET

- Triggered by one-off ‘shock’

- Typically don’t see a recession

- Profits are typically stable

- Oil price shock, EM crisis, War

EVENT DRIVEN BEAR MARKET

	Length (m)	Decline	Time to Recover (m)	Change in profits
Aug 56 – Oct 57	15	-22%	11	---
Dec 61 – Jun 62	15	-22%	11	0%
Feb 66 – Oct 66	8	-22%	7	-5%
Oct 87 – Dec 87	2	-32%	19	0%
Jul 98 – Aug 98	1	-19%	3	-7%
Apr 11 – Oct 11	5	-19%	5	-2%
Average	***8***	***-23%***	***9***	***-3%***
Source: Bloomberg				

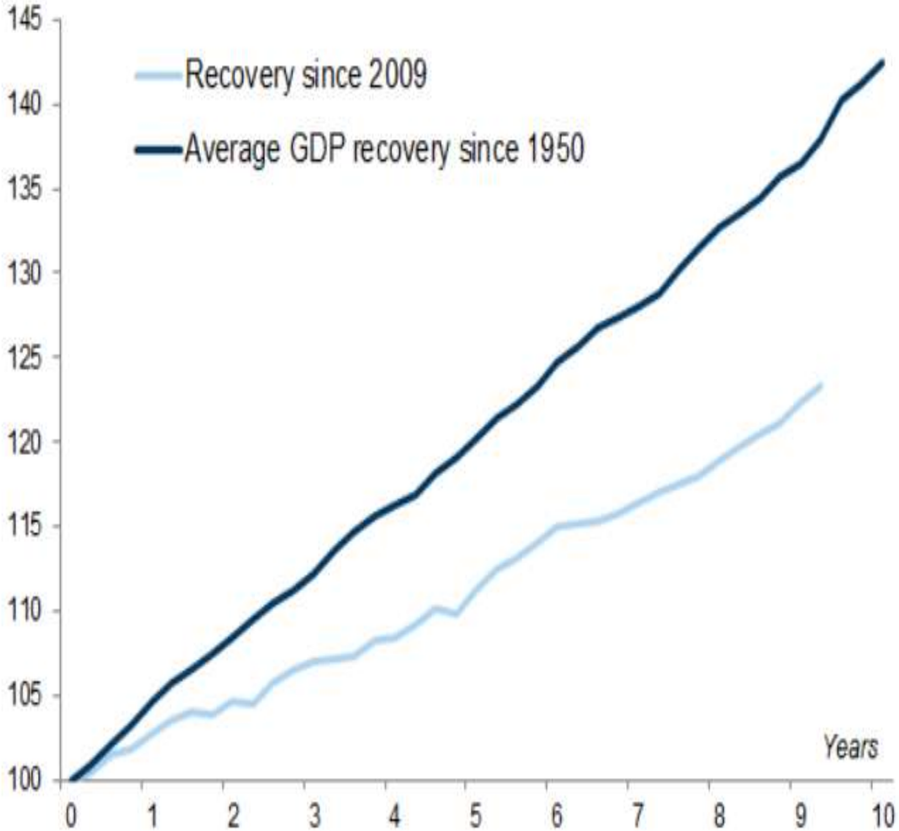
WHICH ONE WILL IT BE????

THE ECONOMIC BACKDROP

NOT A NORMAL RECOVERY

Exhibit 5 : Weakest economic recovery...

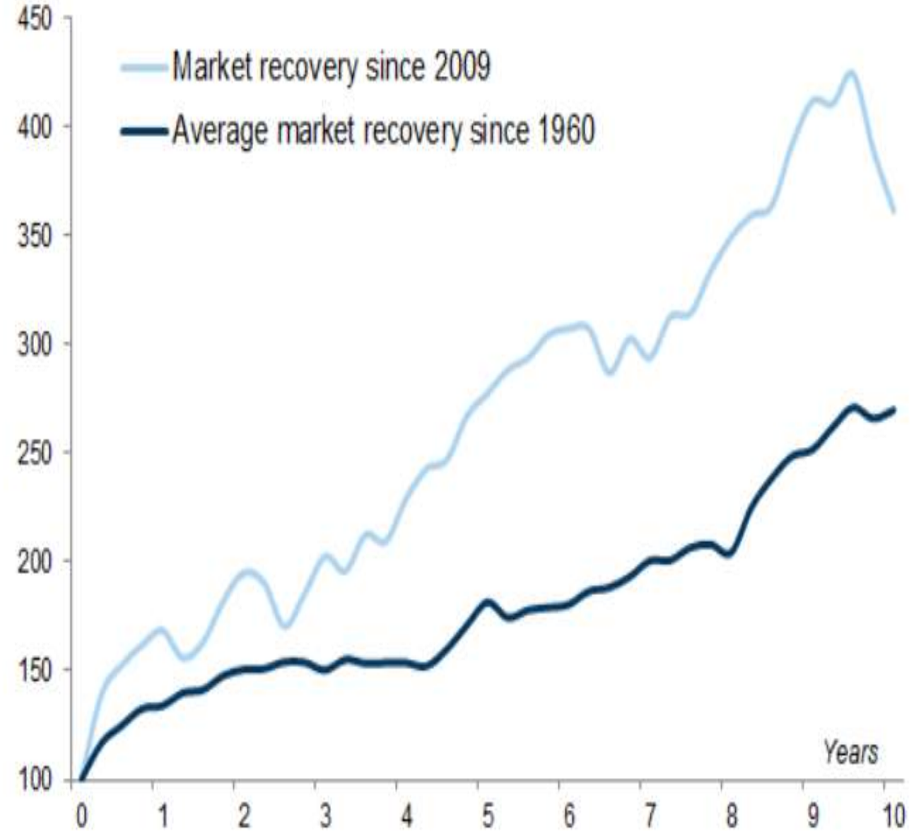
US nominal GDP from trough 10 years onward



Source: Haver Analytics, Goldman Sachs Global Investment Research

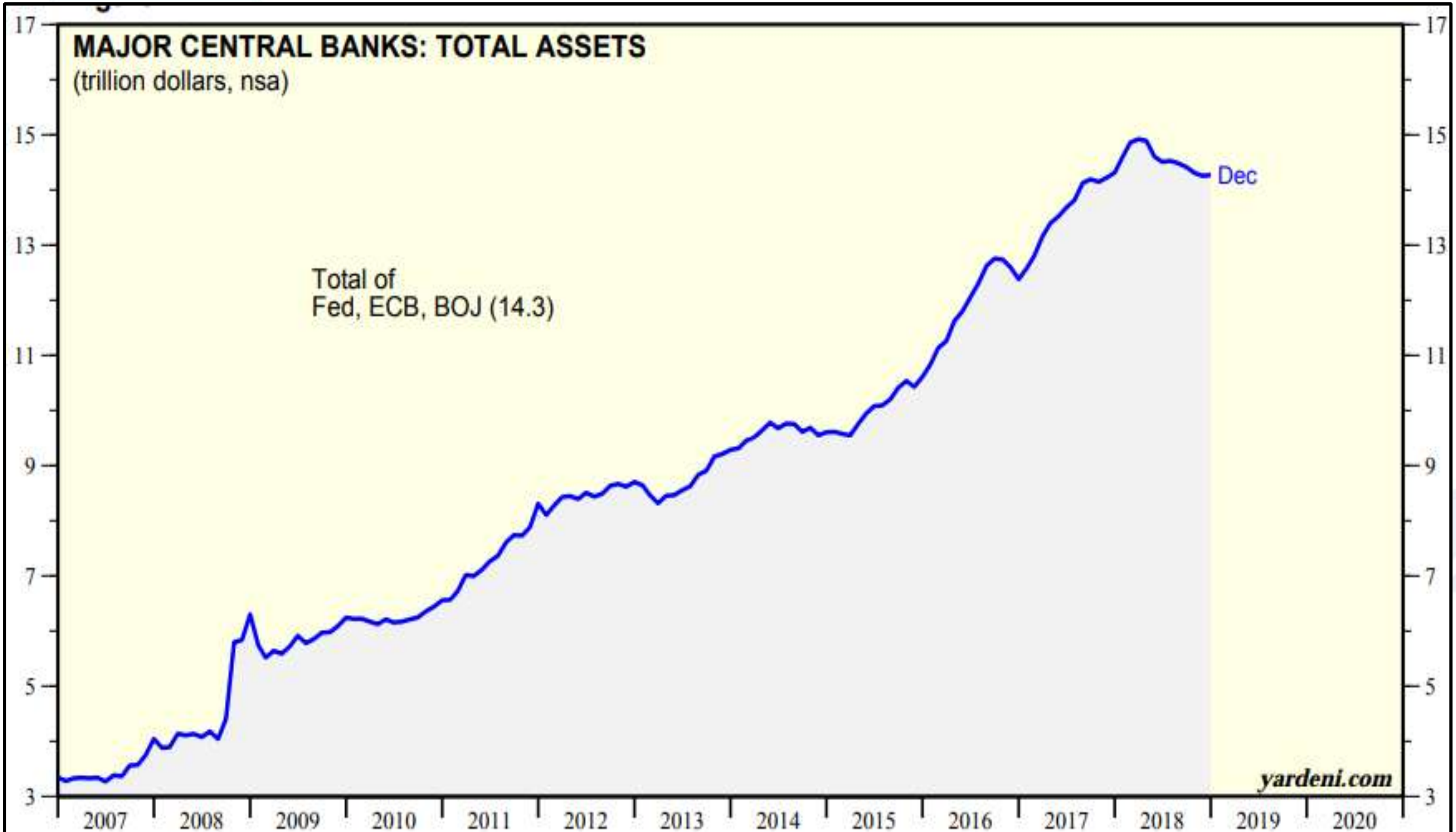
Exhibit 6 : ... but unusually strong financial recovery

S&P 500



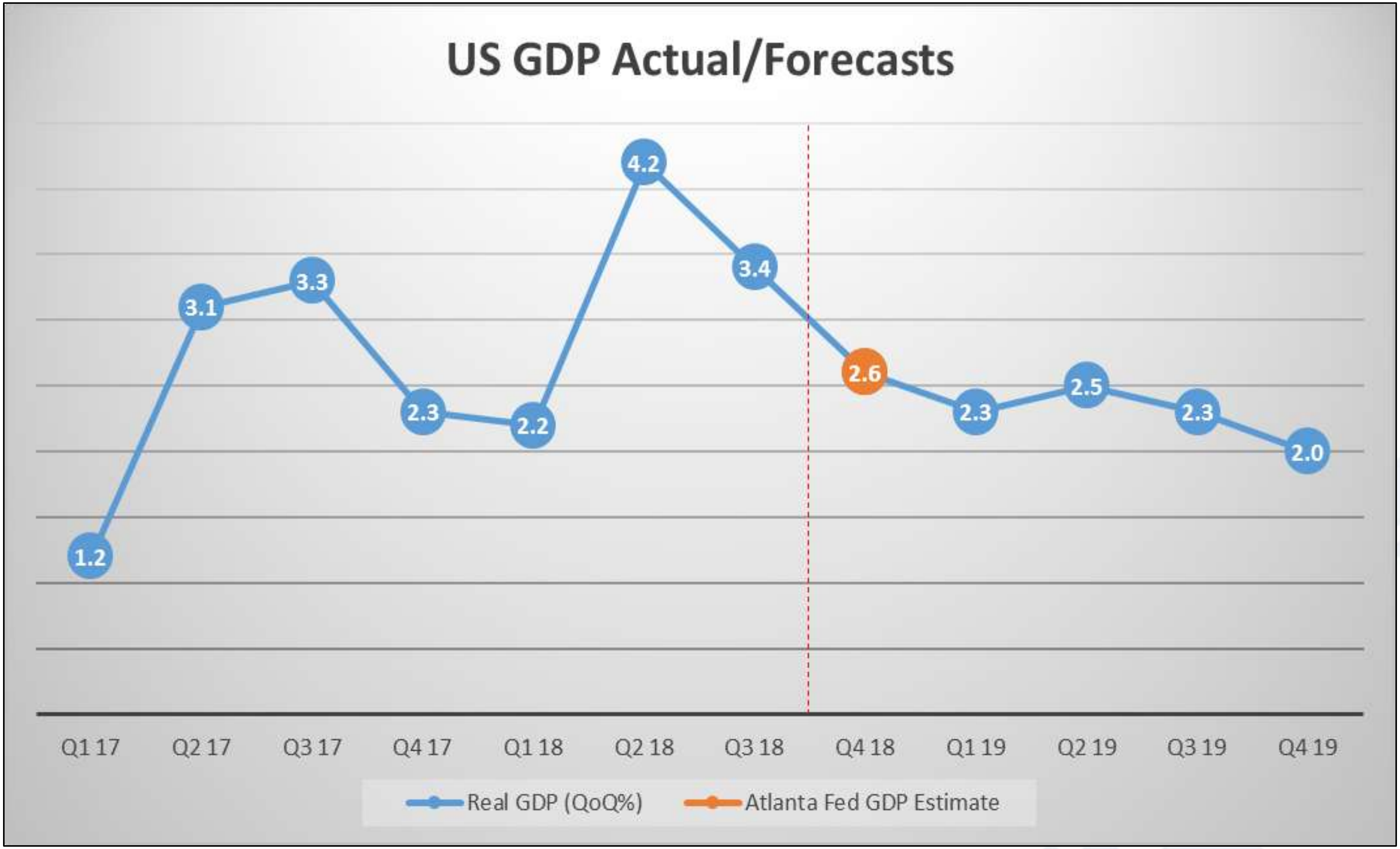
Source: Datastream, Goldman Sachs Global Investment Research

A BIG DEAL FOR FINANCIAL ASSETS

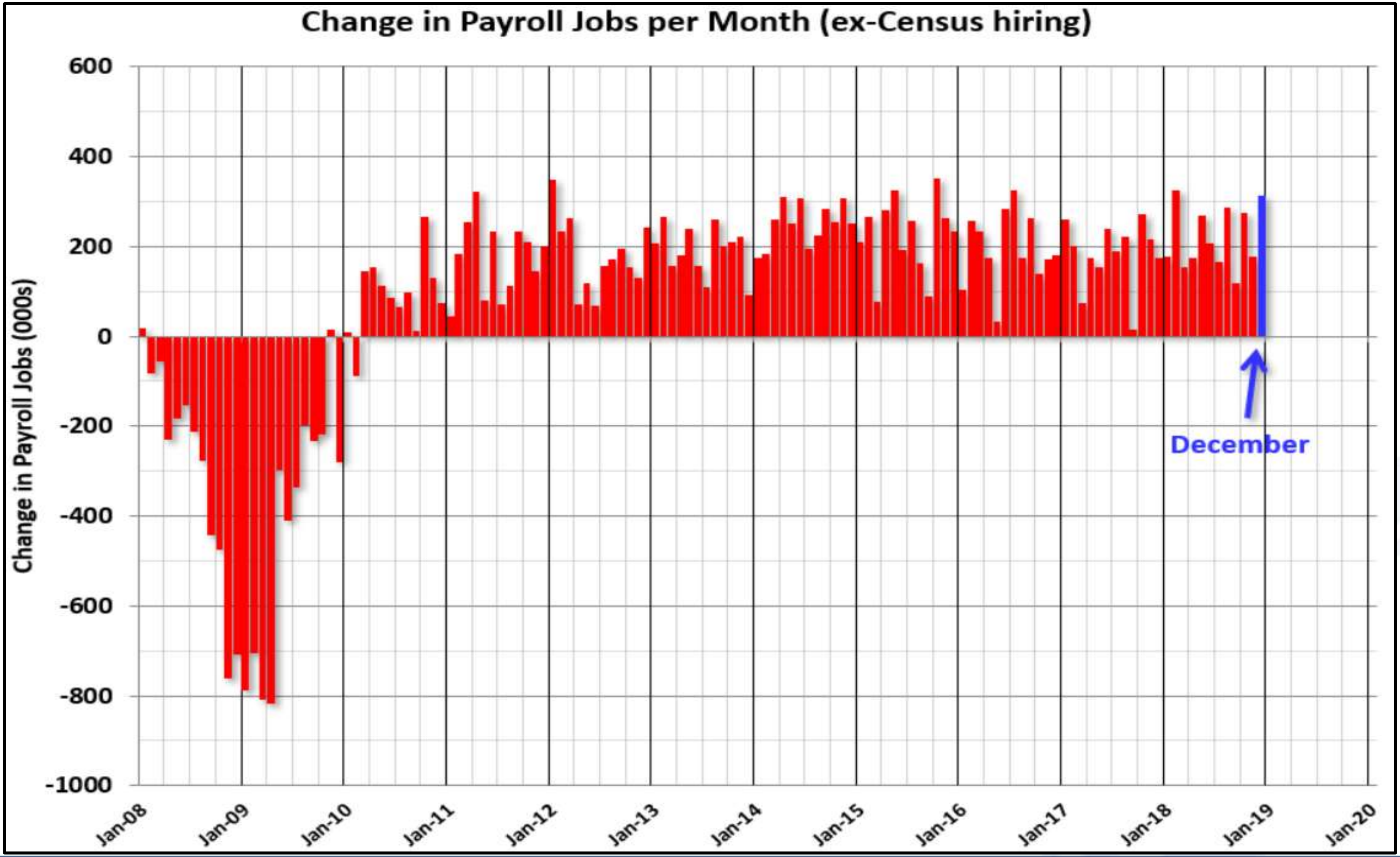


Source: Haver Analytics.

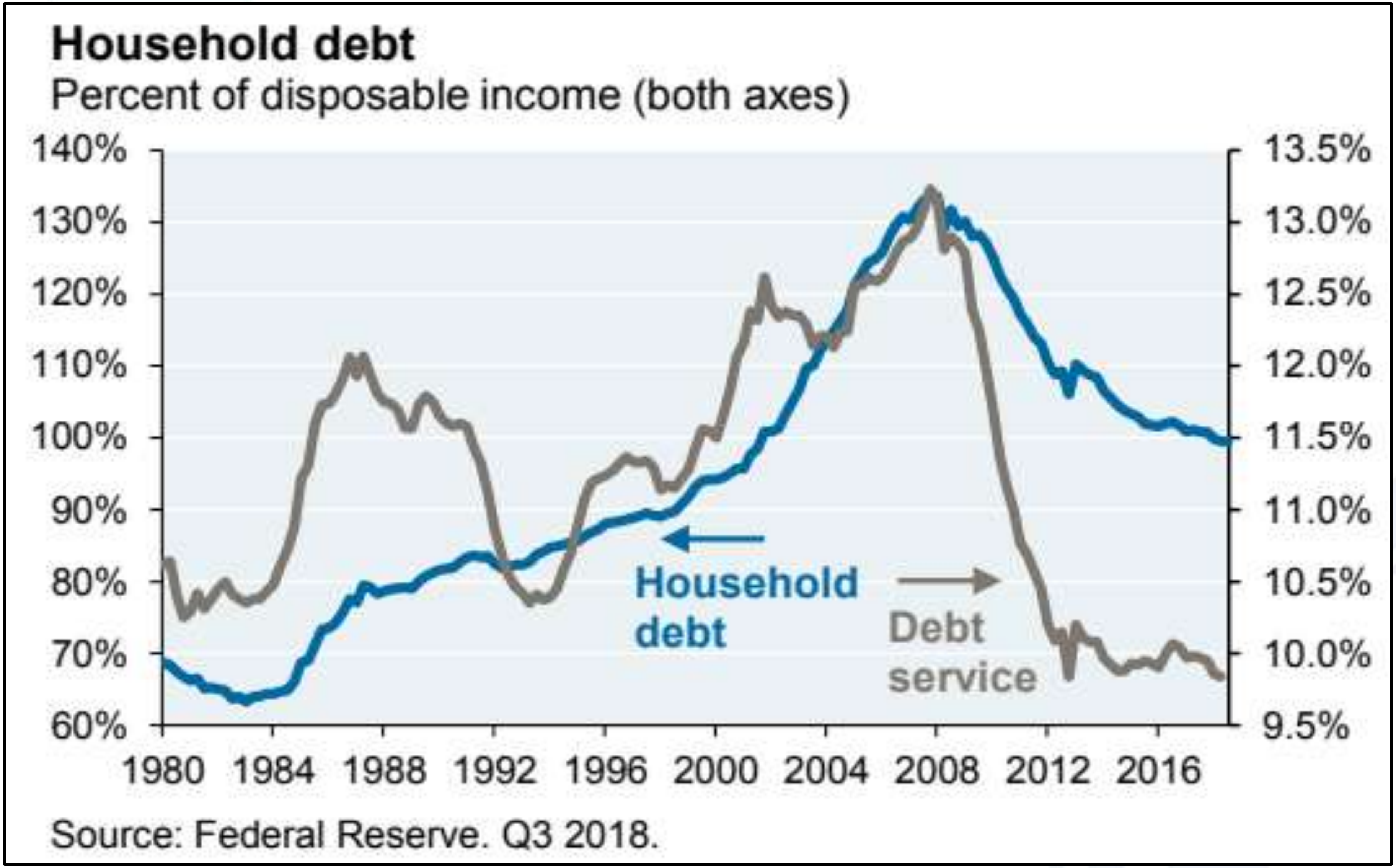
CURRENT GROWTH ESTIMATES



NO SIGN OF A SLOWDOWN HERE

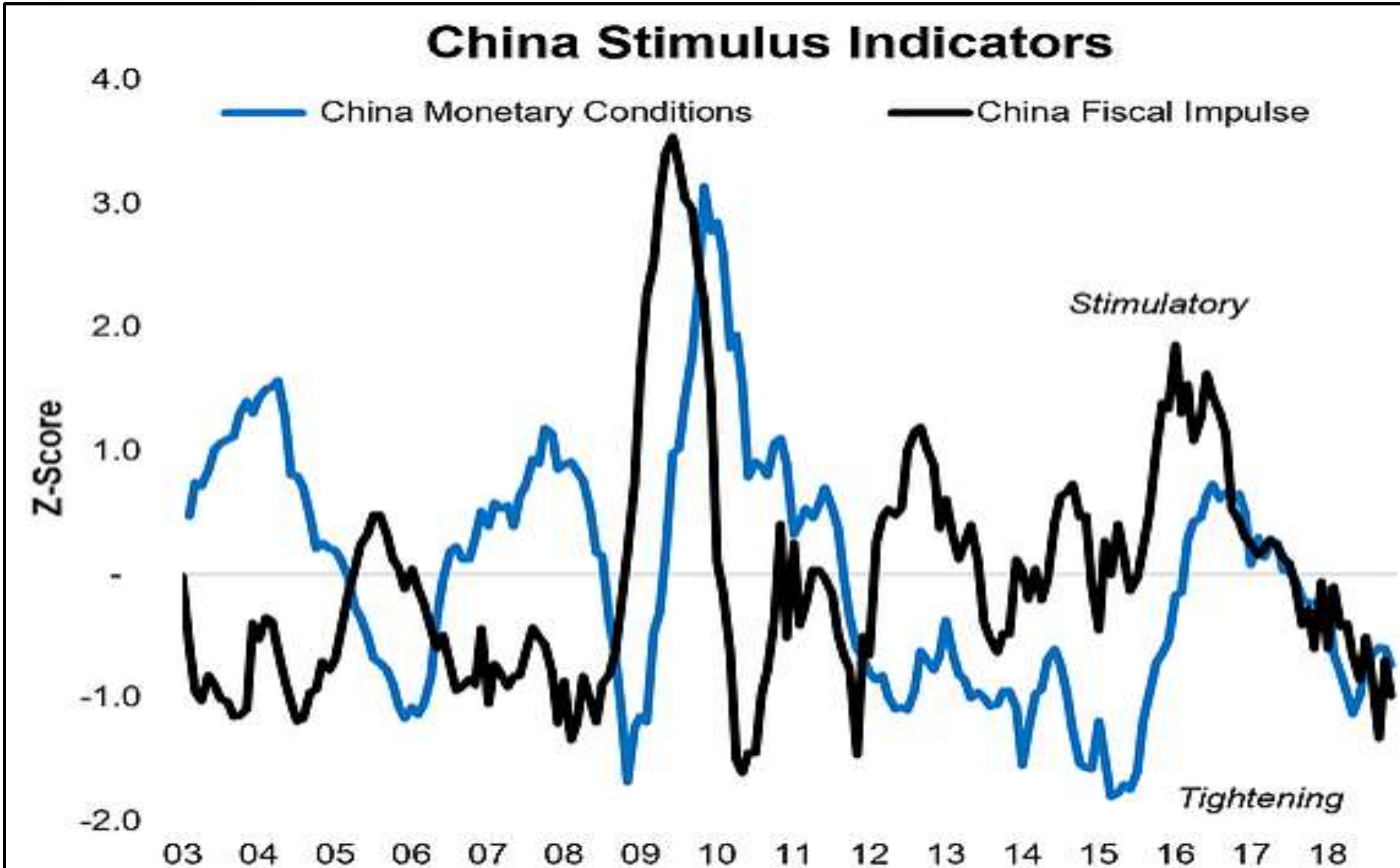


WOULD BE UNUSUAL FOR THE CONSUMER TO CAUSE A RECESSION



BUT MANUFACTURING IS FEELING ILL

CHINA HAS TIGHTENED AS TRADE TENSIONS HAVE GROWN…



…AND THE MARKETS ARE CAUSING A DRAG

Source: Goldman Sachs Global Investment Research

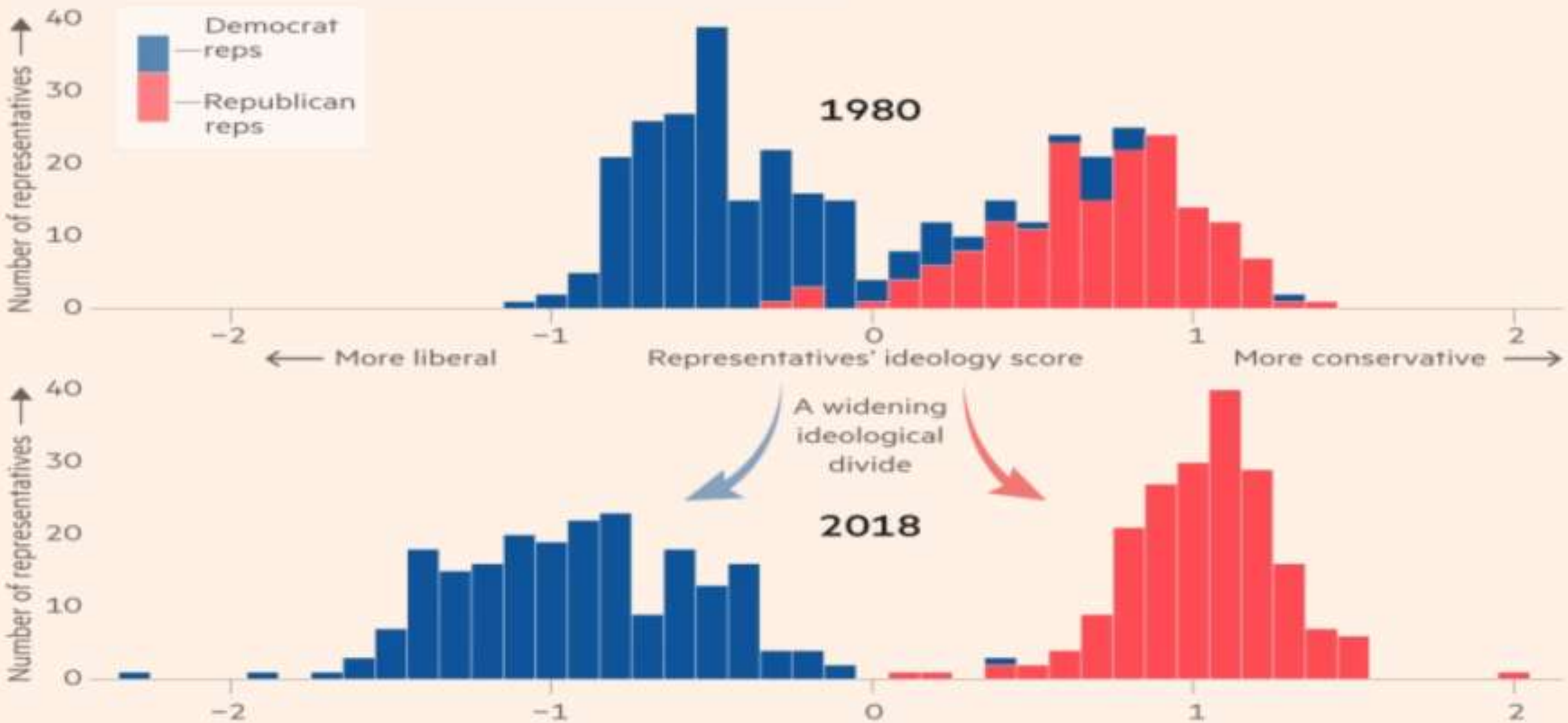
HOW DO YOU FACTOR IN POLITICAL DYSFUNCTION? (U.S. VERSION)

Politics

Trump sticks to demand for border wall funding as shutdown drags on

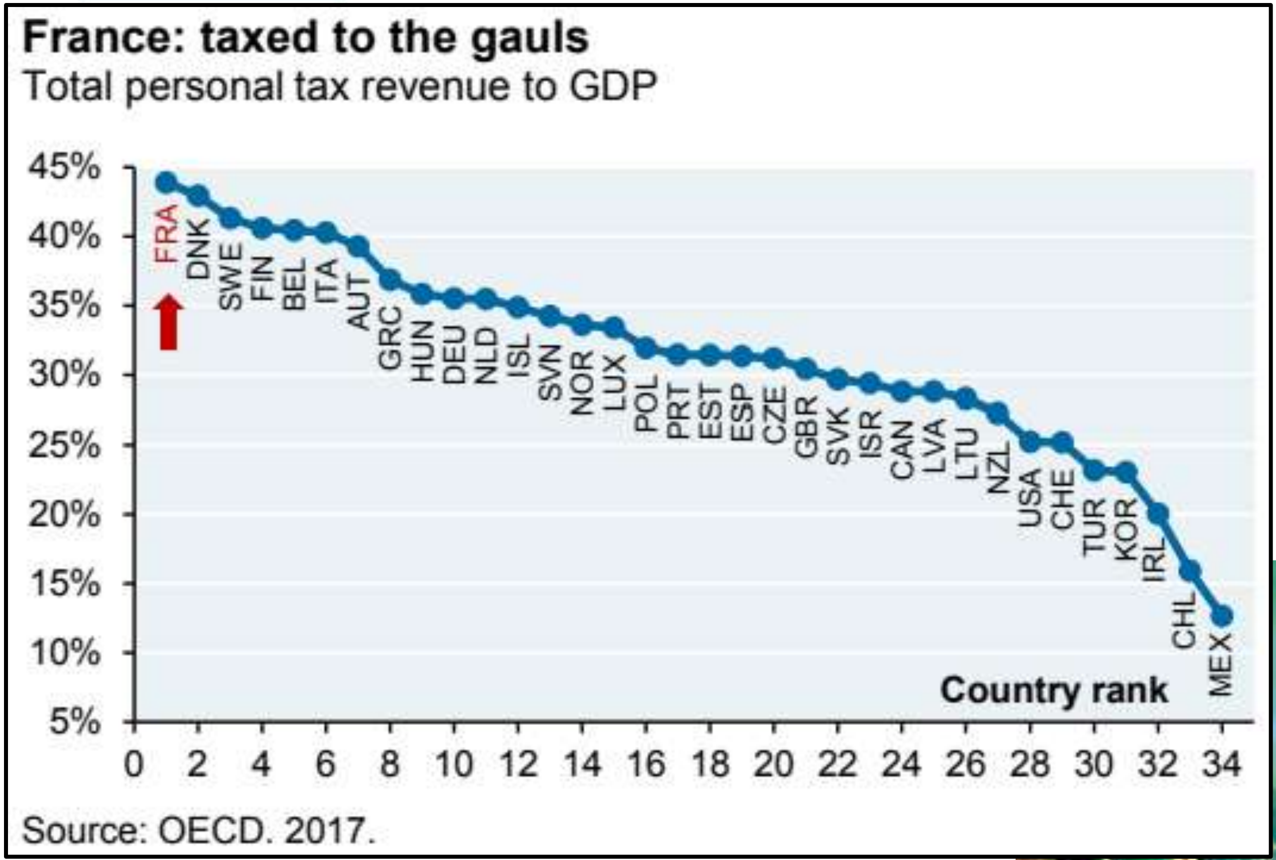
American politics is polarising: the new intake of representatives is more ideologically divided than ever before

Distribution of representatives by party and ideology



Graphic: John Burn-Murdoch
Sources: Adam Bonica (Database on Ideology, Money in Politics and Elections); AP
© FT

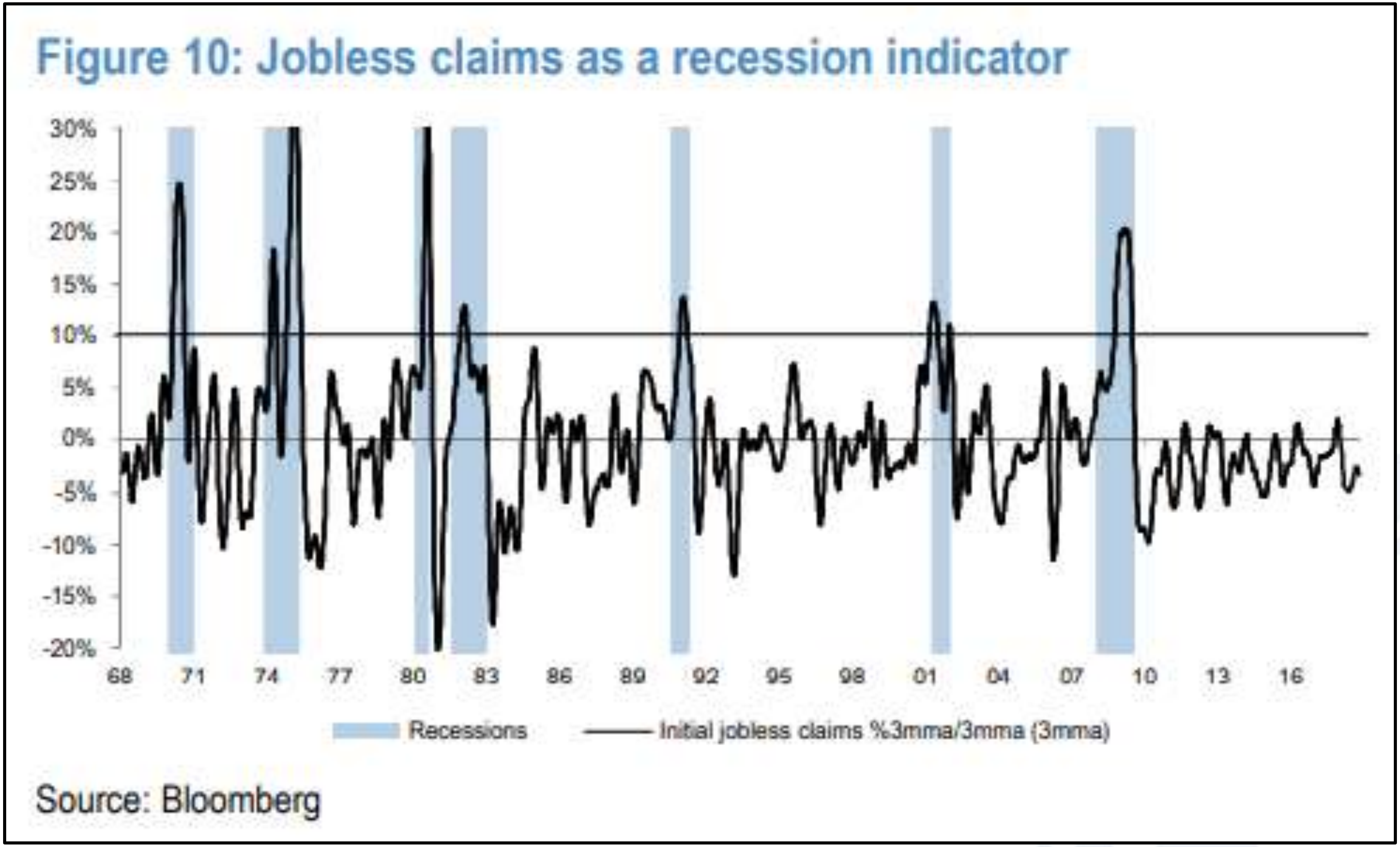
HOW DO YOU FACTOR IN POLITICAL DYSFUNCTION? (EUROPEAN VERSION)



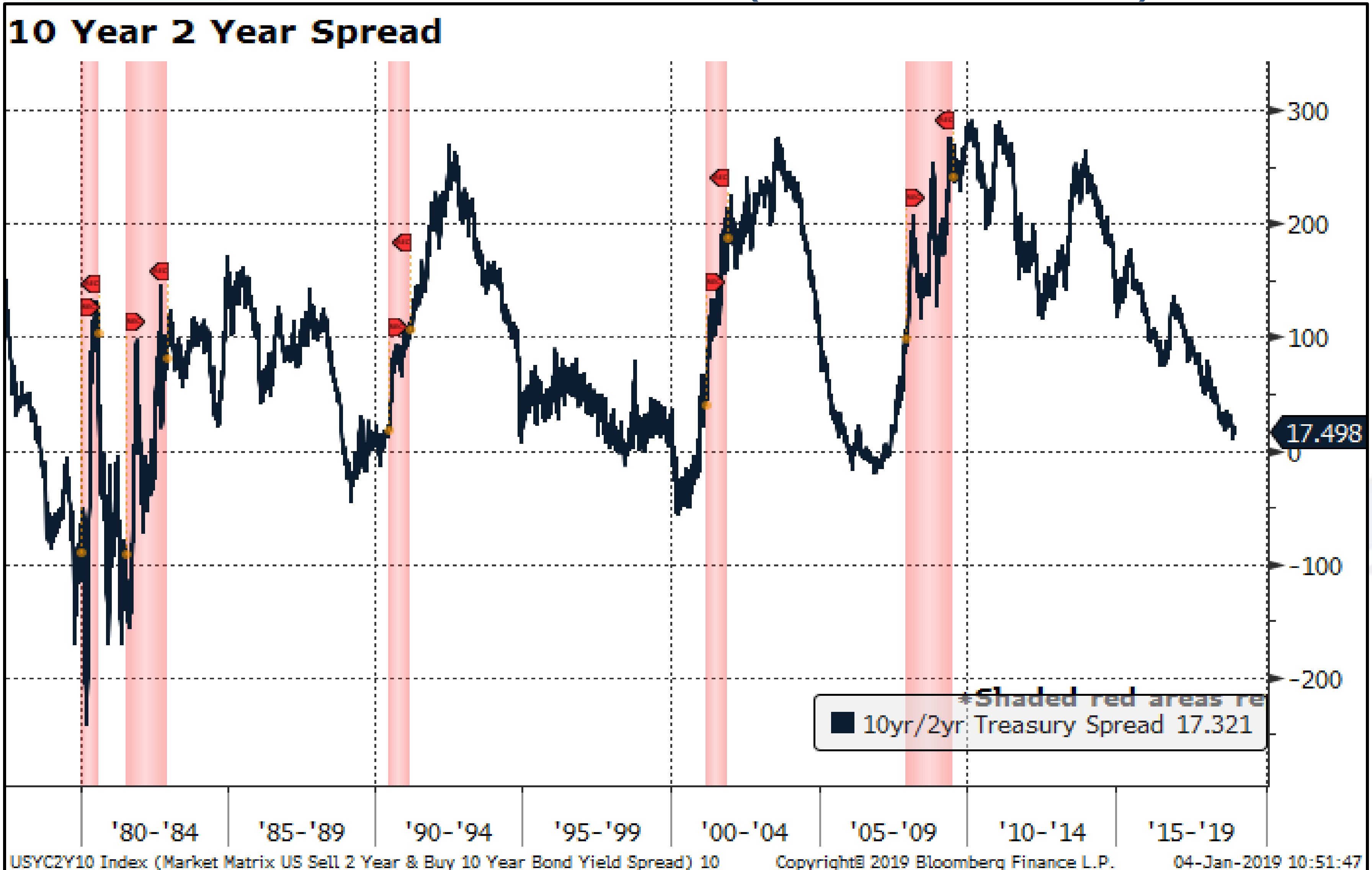
HOW DO YOU FACTOR IN POLITICAL DYSFUNCTION? (U.K. VERSION)

THE ONLY GUY LOVING IT

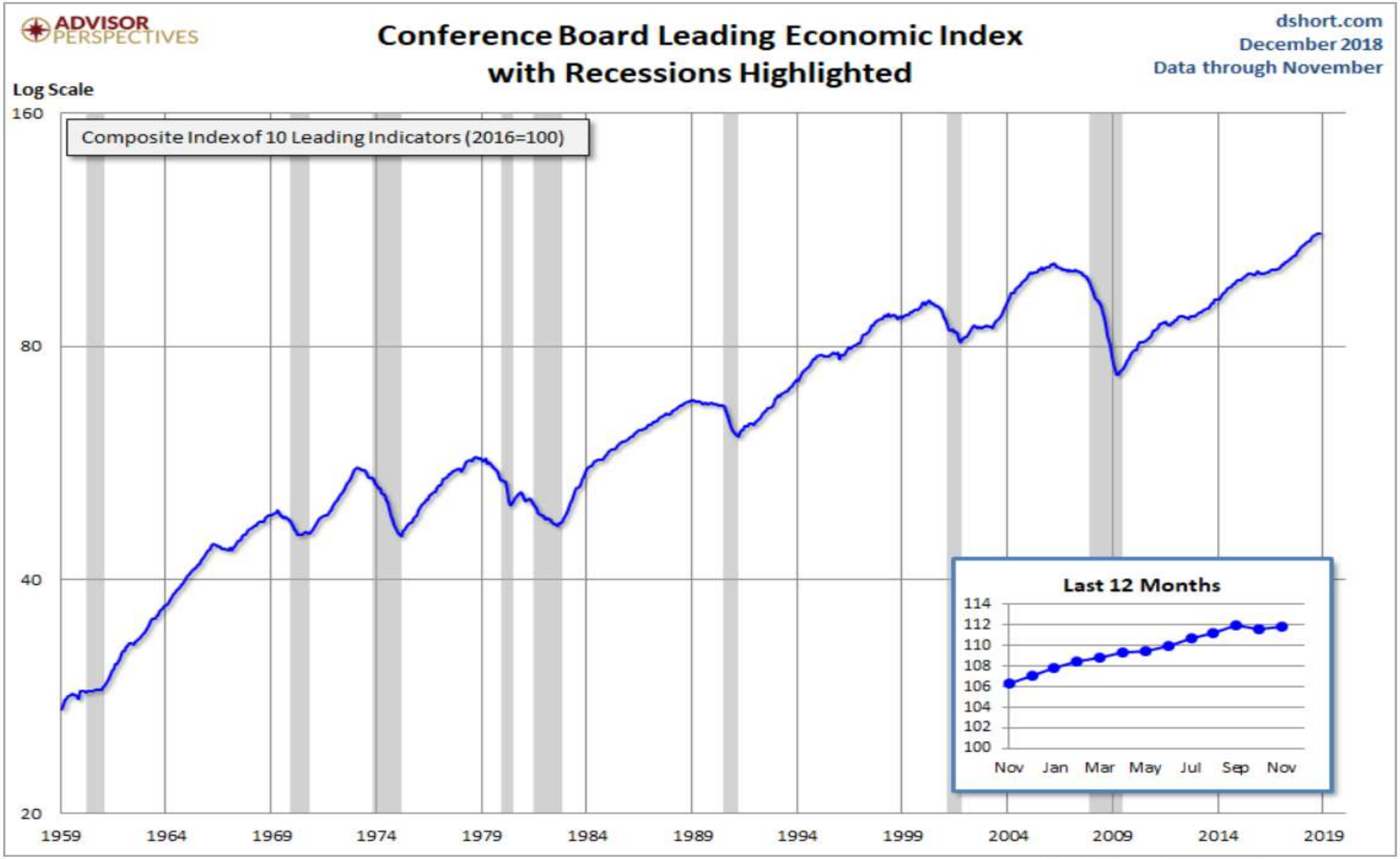
BUT WHERE ARE THE WARNING SIGNALS (LAYOFFS)?



BUT WHERE ARE THE WARNING SIGNALS (YIELD CURVE)?



BUT WHERE ARE THE WARNING SIGNALS (LEADING INDICATORS)?



TWO PATHS FORWARD

1956: IBM HARD DRIVE, 5 MEGABYTES
2018: IPHONE XS MAX, 512 GIGABYTES

"There are two kinds of forecasters: those who don't know, and those who don't know they don't know."

— **John Kenneth Galbraith**

AND THIS IS WHAT WE DO WITH IT?

TWO SCENARIOS FROM HERE
#1 – EVENT DRIVEN BEAR MARKET

Bear market but no recession

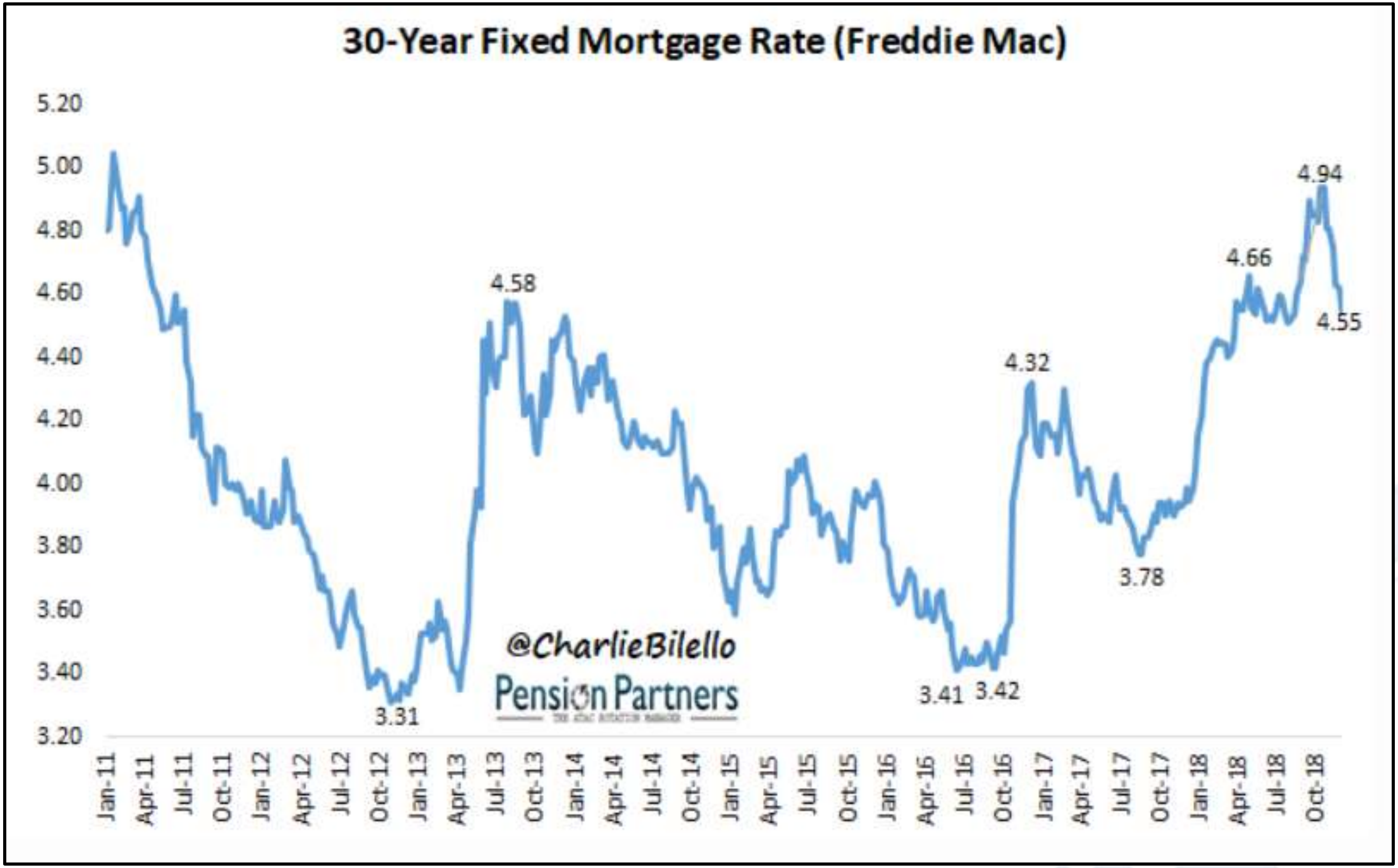
- Growth settles at potential (high 1%/low2%)
- Inflation pressures moderate, but no deflation
- Fed pause + Chinese stimulus prove to be keys for sentiment
- Earnings estimates stabilize (Apple is just about $1000 phones)
- Everyone who loved 10-years at 2.6% hates them at 3%
- Credit wins over duration

TWO SCENARIOS FROM HERE
#2 – CYCLICAL RECESSION

We are in (or soon headed towards) a recession and just don't know it

- Layoffs will start to pick up
- 4Q18 or 1Q19 GDP misses by a large amount
- Psychology weighs on markets which kills the fundamentals
- The Fed is constantly playing catch-up
- Earnings estimates will plunge (more Apples)
- Every rally in risk assets should be sold
- Bond yields are headed to <2% as deflation fears resurface

HOUSING SHOULD GET A BREAK



THE BANKS DON'T NEED TO SHUT OFF CREDIT GROWTH

Decreased risk in the financial system

Bank risk-weighted-capital ratio	2007	2017
US	8.5%	13.9%
Europe	8.0%	16.0%

Bank loan-to-deposit ratio	2007	2017
US	97%	76%
Europe	139%	105%

Source: Fed, FDIC, ECB, JPMAM. 2018.

THIS SHOULD STILL HELP CONSUMERS IF NOTHING ELSE

INFLATION EXPECTATIONS…

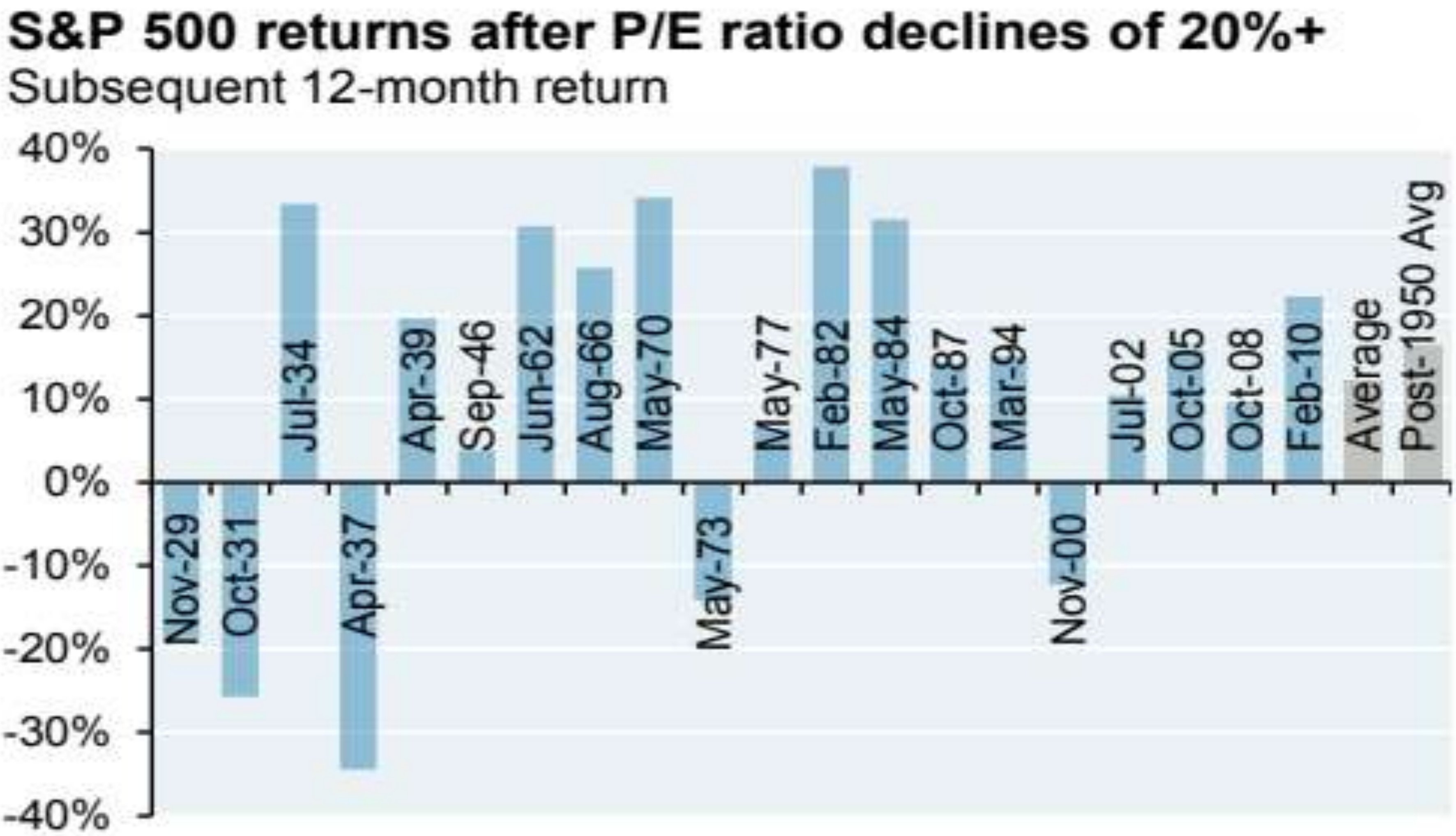
…GIVES THE FED ROOM TO PAUSE

HAS SOME VALUE COME BACK INTO THE MARKET?

	US equities S&P 500 Fwd P/E	European equities Stoxx 600 Fwd P/E	EM equities MSCI EM Fwd P/E	High yield US HY Spreads (bps)	Investment grade US IG Spreads (bps)
Peak 2018 level	18.5	15.1	13.2	305	108
Percentile vs history	86%	91%	59%	89%	89%
Current level	14.3	12.0	10.3	534	182
Percentile vs history	42%	34%	18%	35%	35%

Source: Bloomberg, J.P. Morgan Global Index Research, Datastream, JPMAM. December 26, 2018.

THIS ARGUES FOR POSITIVE FORWARD RETURNS



Source: Empirical Research Partners. December 2018.

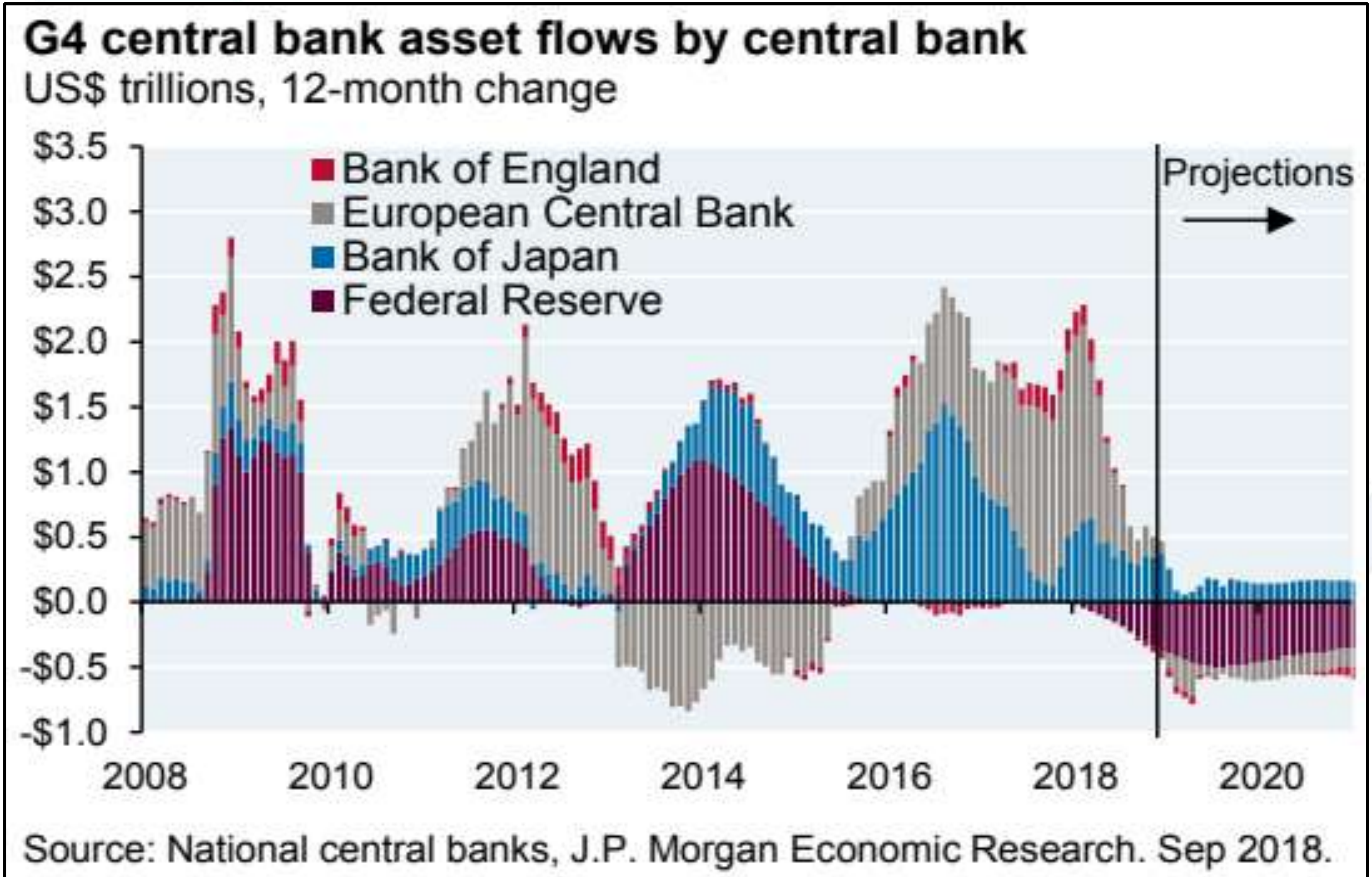
WORST QUARTERS SINCE WWII

ALL QUARTERS >-10% (292 QTRS IN TOTAL)

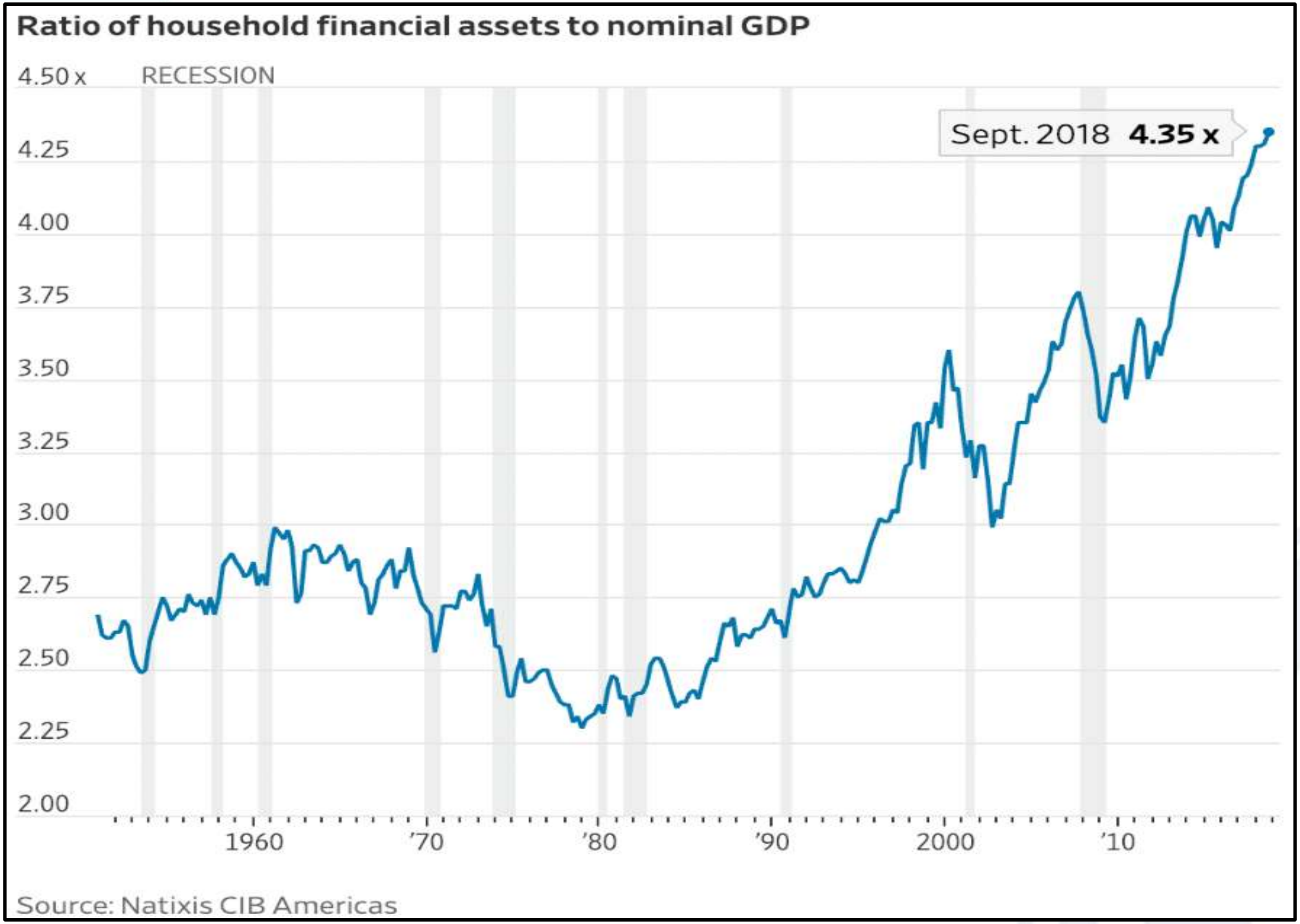
Quarter	% Change	Next Qtr %	Next 2 Qtrs %	Next Year %
9/30/1974	-26.1	7.9	31.2	32.0
12/31/1987	-23.2	4.8	10.7	12.4
12/31/2008	-22.6	-11.7	1.8	23.5
6/30/1962	-21.3	2.8	15.3	26.7
6/30/1970	-18.9	15.8	26.7	37.1
9/30/1946	-18.8	2.3	1.4	1.0
9/30/2002	-17.6	7.9	4.0	22.2
9/28/2001	-15.0	10.3	10.2	-21.7
9/28/1990	-14.5	7.9	22.6	26.7
9/30/2011	-14.3	11.2	24.5	27.3
6/28/2002	-13.7	-17.6	-11.1	-1.6
12/31/2018	-13.6	?	?	?
3/30/2001	-12.1	5.5	-10.3	-1.1
9/30/1975	-11.9	7.5	22.5	25.5
6/30/2010	-11.9	10.7	22.0	28.1
3/31/2009	-11.7	15.2	32.5	46.6
9/30/1981	-11.5	5.5	-3.6	3.7
9/30/1957	-10.5	-5.7	-0.8	18.0
9/30/1998	-10.3	20.9	26.5	26.1
12/31/1973	-10.0	-3.7	-11.8	-29.7
Source: Bloomberg				

THIS IS A WILD CARD

HOW DEPENDENT ARE WE?



EACH CYCLE IS DIFFERENT
HOW DEPENDENT ARE WE?



SUMMARY

1. Slowdown in global growth does not turn into a U.S. recession
   - In the U.S. the fiscal tailwind will fade. Housing will also drag
   - Trade disputes will continue to weigh on the Chinese outlook
   - But U.S. job growth should persist and lower rates & oil act as stabilizing factors
   - Europe more at risk if only because they are starting from a lower level

2. No recession prediction hinges on a couple policy changes
   - First, Fed takes a pragmatic approach - No rate hikes until outlook improves and flexibility with quantitative tightening
   - They also avoid any hikes that would invert the curve
   - Second, China moves slowly towards stimulus (rate hikes and fiscal spending)

3. Recession risk doesn’t disappear though.
   - Credit markets are becoming more discerning
   - Continued credit growth is unlikely and this won’t provide a tailwind anymore
   - Fiscal policy is unlikely to help going forward
   - Looking into 2020 government policy could change dramatically in as yet unknowable ways

3. Outlook for equities also hinges on policy
   - If the Fed makes a mistake and over-shoots, can’t rule out a tough year
   - A more dovish Fed could extend economic cycle and lead to decent rebound.
   - Dovish Fed could favor EM over developed as well

4. Government bonds are unexciting, but remain a key hedge against recession
   - Keep bond quality high – nearing end of the credit cycle
   - Even with wider spreads not being paid to take credit risk
   - It pays to sell credit early – opportunity cost isn’t high
   - Cash is an asset class with yields >2%

DISCLOSURES

* After internal mutual fund fees but before GAM's fee. All dividends have been reinvested. Transaction fees, if any, have not been included.

The GAM 10 Model reflects a 100% equity strategy
The GAM 8 Model reflects an 80% equity / 20% bond strategy
The GAM 6 Model reflects an 60% equity / 40% bond strategy
The GAM 4 Model reflects an 40% equity / 60% bond strategy
The GAM 2 Model reflects a 20% equity / 80% bond strategy
The GAM 0 Model reflects a 100% bond strategy

The GAM model portfolios are presented to illustrate how we construct our portfolios and the returns that would have been achieved by investors with similar risk tolerance given the market conditions during the stated periods.

Keep in mind that G.A.M. utilizes "active asset management" so asset allocations may vary within predetermined ranges as market conditions change. Remember that the performance of these models does not represent actual trading and these results may vary somewhat from actual performance if G.A.M. were to actively manage a new client's account In addition, some clients may have different funds in their account than those used in the models for various reasons, for example: (1) the client may have a customized allocation due to specific objectives such as socially responsible investing (2) some mutual funds may choose to limit investments from current or new investors (3) some mutual funds may not be available due to the client's size of investment or (4) some mutual funds may not be available at the client's selected custodian. In these cases, alternative mutual funds with similar objectives are utilized.

The results for each model indicate past performance of the model and are not intended to represent actual client results and also do not predict future returns for client accounts.

Where indicated, performance results are presented before (or gross of) GAM's management fees and while reinvesting all dividends. Performance results for each gross model portfolio do not include any deduction for advisory fees (which generally range from 1.0% to 2.0% per annum depending upon, among other things, the size of the client account) or any custodial/transaction fees charged by the custodian. Actual annual returns would have been reduced by the amount of these advisory and custodial fees. For example, if such fees totaled 2.0% per annum, they would reduce a 10.0% per annum model portfolio return to 8.0% per annum. Standard GAM advisory fees are set forth in Part II of Form ADV.

The major market indexes that are presented are unmanaged indexes or index-based mutual funds commonly used to measure the performance of the U.S. and global stock/bond markets. These indexes have not necessarily been selected to represent an appropriate benchmark for the model portfolio performance, but rather is disclosed to allow for comparison to that of well known, widely recognized indexes. The volatility of all indexes may be materially different from that of client portfolios. This material is presented for informational purposes.

S&P 500 – Represented by the Vanguard 500 Index Fund (VFINX), based on a large cap US equity index
NASDAQ – Represented by the NASDAQ Composite, a market-capitalization weighted index of common stocks listed on the NASDAQ
Russell 3000 – Represented by the Russell 3000 Index, a group of the largest 3000 US companies, ranked by market capitalization
Russell 2000 – Represented by the Russell 2000 Index, a group of the smallest 2000 companies within the Russell 3000 Index, ranked by market capitalization
EAFE – Represented by the MSCI EAFE Index, an unmanaged capitalization-weighted index of companies representing the stock markets of Europe, Australasia and the Far East
Intermd Bonds – Represented by the Vanguard Interm-Term Bond Index Fund (VBIIX), based on a market-weighted bond index of intermediate-term bonds
STerm Bonds – Represented by the Vanguard Short-Term Bond Index Fund (VBISX), based on a market-weighted bond index of short-term bonds
High-Yield – Represented by the DWS High Income Fund (KHYAX), a fund that invests most of its assets in below-investment grade bonds

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Any past performance presented does not predict future returns.

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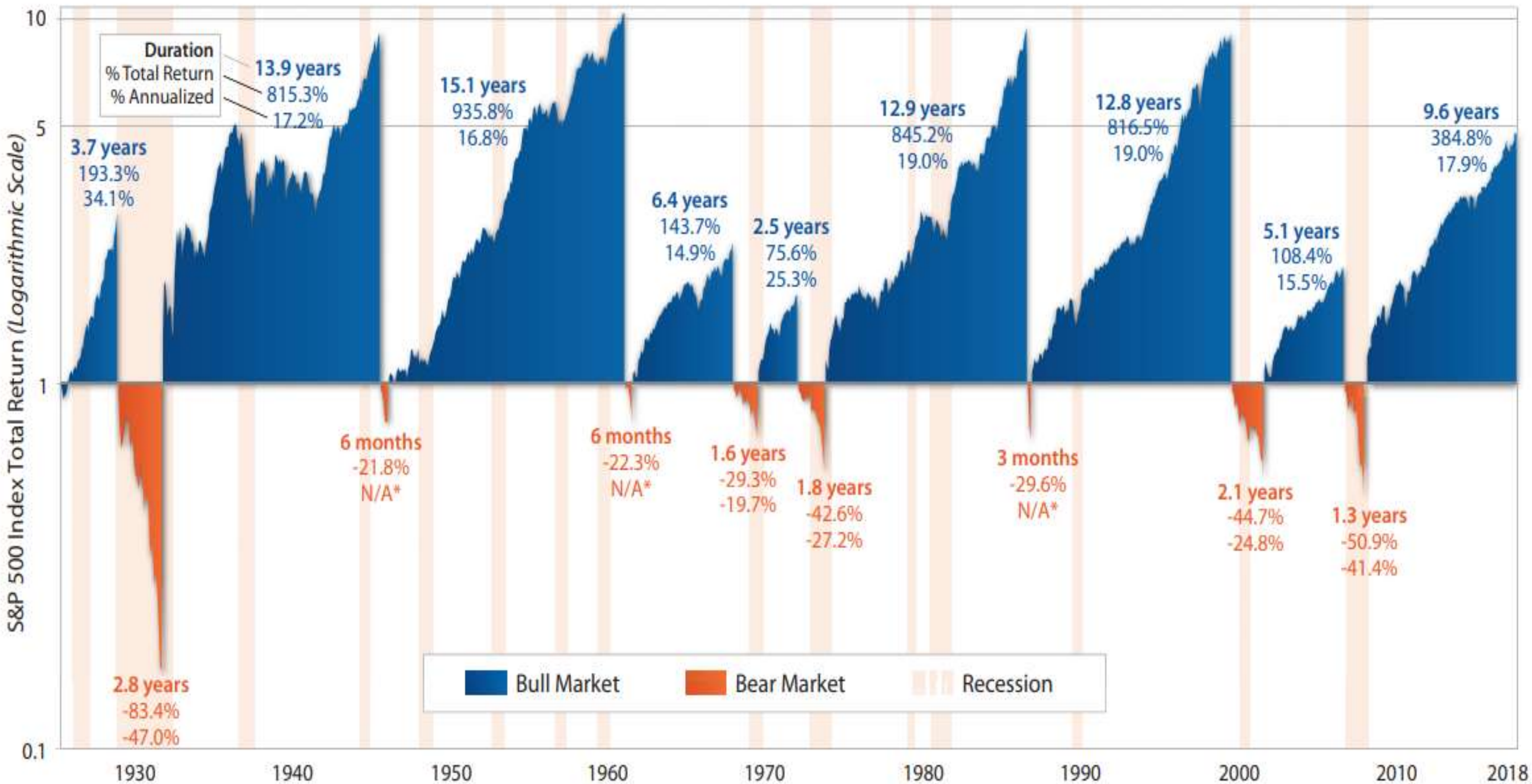
AS ALWAYS THE MONEY FOLLOWS RETURNS

Chart 7: Record equity outflows past 6 weeks

Source: BofA Merrill Lynch Global Investment Strategy, Datastream, MSCI

WHY ARE WE DOING THIS?



Source: First Trust Advisors L.P., Morningstar. Returns from 1926 - 9/28/18. *Not applicable since duration is less than one year.

These results are based on monthly returns–returns using different periods would produce different results. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.

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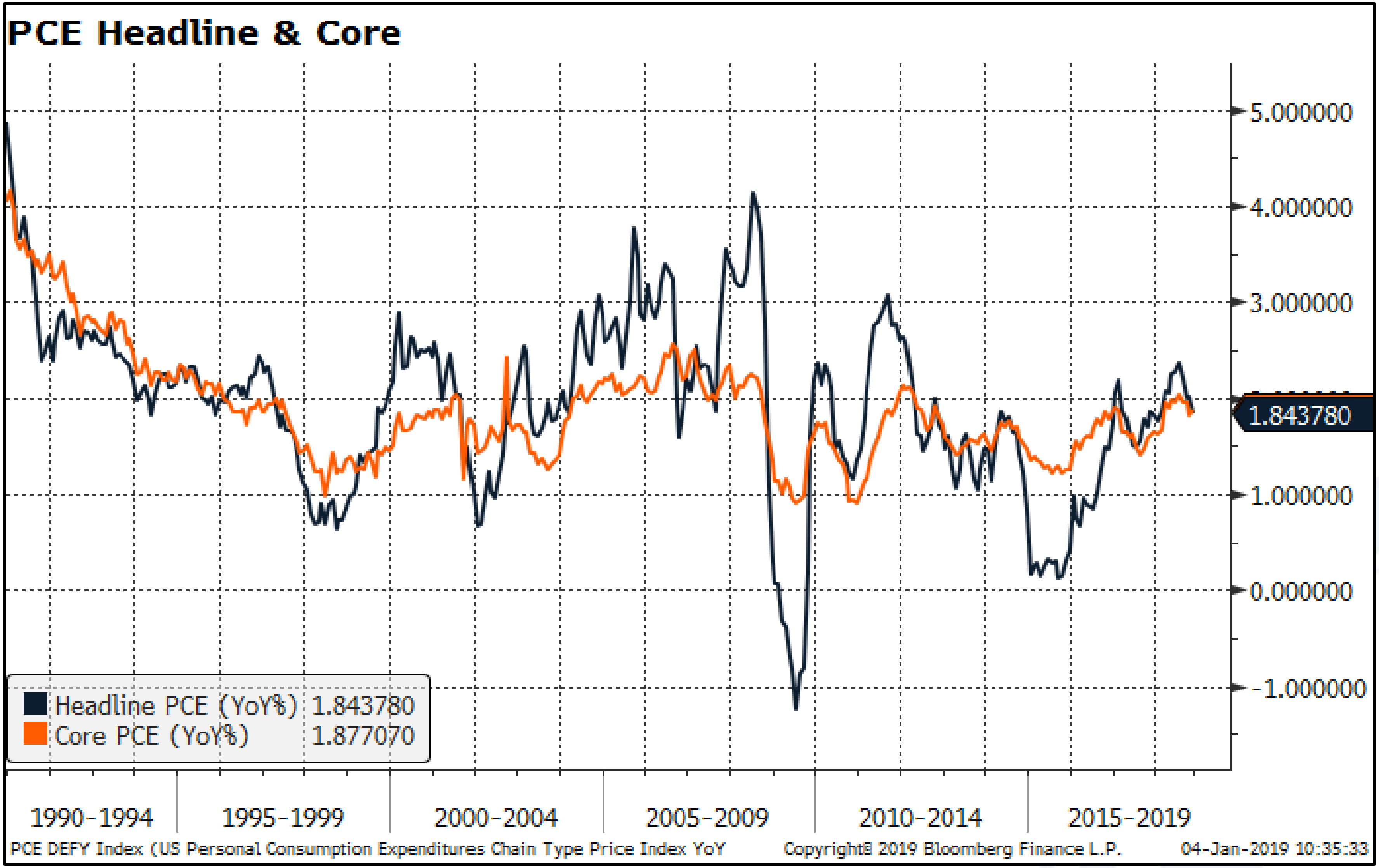
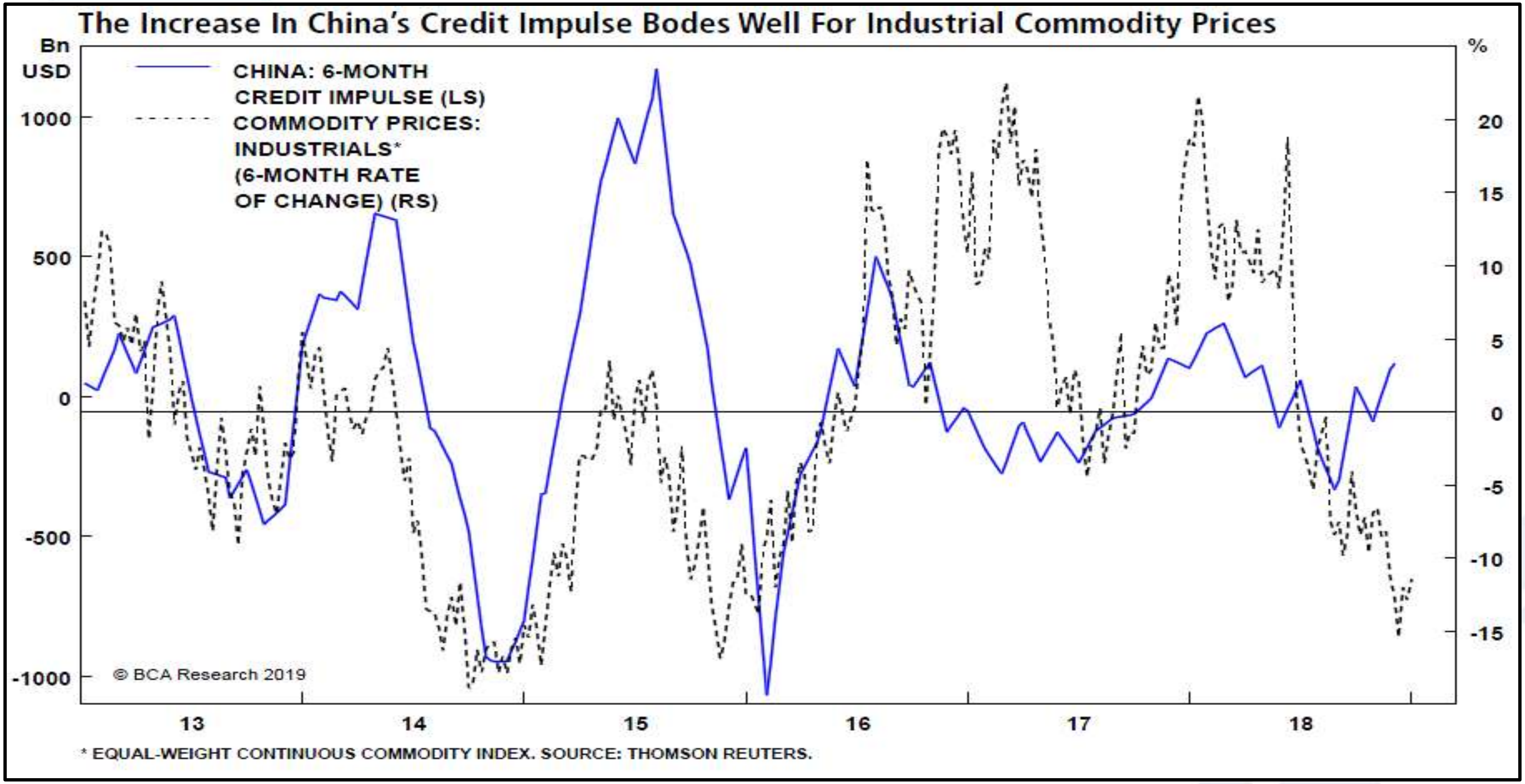
THE INFLATION BACKDROP….



CHINA IS STARTING TO LEAN INTO THE WIND



China: PBOC announces a 1pp cut in RRR; further monetary policy easing likely

4 January 2019 | 8:14PM HKT