Investment Review and Outlook **October 2018**

"It's Only Just Begun"

The U.S. economy continued to expand in the second quarter of 2018 at an increased rate of 4.2%. The growth was significantly greater than most economists had forecasted. The U.S. economy is now operating at close to peak levels when compared to past economic expansions. Unemployment is at a low 3.9% of the work force, while retail sales have begun to accelerate with the increase in consumer confidence.

The question on many investors' minds is whether or not the economy is peaking and how much longer can the economy grow at this rate. Conventional wisdom argues that the U.S. economy has experienced strong growth and appears to be reaching a peak level. This analysis points to the recent increase in U.S. inflation to 2% and the simultaneous increase in interest rates. Shorter term interest rates have increased at a faster rate than both intermediate and longer term interest rates which has flattened the yield curve. A flattening of the yield curve has historically indicated that the economy is peaking with a high probability that the US will encounter slower rates of economic growth in the future. In the past, similar yield curve changes have forecasted a recession within one to two years.

As we have learned from the experience of past economic cycles, it is difficult to forecast future economic behavior following periods of significant economic change. During the past year and a half, significant changes in many areas occurred that will have a long term positive impact on the U.S. economy. The lowering of individual and corporate tax rates coupled with the incentive for corporations to repatriate foreign profits is a significant change. Deregulation is also a significant change, allowing corporations to now consider making investments that prior to this change were unattractive. The prospect of revised trade tariffs will likely favor many U.S. corporations and will also have longer term benefits to the U.S. economy, encouraging manufacturing to return to the U.S. Proposed increases in spending on infrastructure and the military are other potential changes that will benefit the US economy in the longer term. Furthermore, the benefits from Artificial Intelligence and Robotics are reducing the content of labor in manufacturing thereby fostering reverse globalization. Manufacturing is now returning to the U.S. as a result of these technological advances and new negotiated tariffs. These significant changes are likely to maintain and extend the growth of the U.S. economy for a longer period of time than experienced in past economic expansions.

The U.S. stock market continues to rise as a result of the prospect of continued high levels of growth in the U.S. economy. Stock valuations are near historical levels reflecting the forecast of further economic expansion and the expected growth in corporate profits. Contributing factors to the increase in stock valuations are the fewer number of available large capitalization companies for investors to purchase. This change coupled with the reduced number of shares available to buy in these companies as a result of company repurchase programs.

Offsetting these positive changes is a concern that the U.S. debt is increasing as a result of greater deficits resulting from lower tax rates and increases in government spending. However, it is expected that the above average growth of the U.S. economy is likely to bring larger tax revenues from higher corporate profits which will in turn reduce the U.S. deficit. This uncertainty as well as that of the outcome of the November elections will most likely have an impact on both the growth of the US economy, corporate profits and valuations of both stocks and bonds.

Recognizing both the positive and negative potential changes, we have chosen to maintain our longer term investment outlook for both stock and bond portfolios. This decision is based on the expectation that the positive changes initiated outweigh the potential negatives we have identified. AHB client stock portfolios continue to be structured in industries and companies that we believe will benefit from the growth we anticipate. Client bonds portfolios have laddered maturities of investment grade corporate and municipal bonds. Bond portfolios have a duration of approximately 4 years unless otherwise requested by the client. AHB manages only separately managed portfolios with asset allocations specified by the client. The AHB differentiation is many fold, but highlighted particularly in the structure of client's custom balanced portfolios. In balanced portfolios, as well as stock and bond specific portfolios, we invest ONLY in individual stocks and bonds. We do not invest client assets in any "packaged products" such as a mutual fund. We do not adhere to the belief that "one size fits all" taken by those offering investors opportunities to invest in a fund of one form or another. These investment "products" primarily benefit the manager of the fund as there is only one portfolio to manage. Separately managed portfolios place the client's interest first. Each portfolio is structured to provide an asset allocation and the risk adjusted investment return of the owner of the assets.

Another differentiation is the investment expertise we provide by having a tax efficient investment process. New client portfolios that are received with low cost securities will not be automatically replaced with securities from our firm's approved buy list. We work with each client and consultant to obtain a tax efficient strategy to harvest long term gains of securities in the portfolio over time. High Net Worth clients realize the tax advantages gained when prioritizing this as part of an investment strategy.

AHB's team approach to structuring and investing client's assets also sets us apart from others. There are no "stars" at AHB. All investment decisions of both stock and bond selection are made by the Investment Policy Committee (IPC), comprised of all security analysts and portfolio managers at AHB. Each AHB portfolio manager may only purchase approved securities of the IPC to structure the client's portfolio. AHB client service professionals work with Financial Consultants and individual clients to open new accounts and respond to all administrative needs. Thus, each individual has the benefit of having availability to all members of the AHB Team.

In closing, we wish to acknowledge and thank the 25 Financial Service Companies that have included AHB among the limited number of approved Investment Management Firms whom Financial Consultants may choose to manage their client's assets. We also wish to thank the more than 200 Financial Consultants to whom we provide our investment management services. We recognize your contribution has been significant in enabling AHB to grow the firm's assets under management to more than $2 Billion today. We appreciate and value the opportunity to be of service to both Financial Consultants and our many long term clients. As in the past, we will continue to make every effort to fulfill the confidence you have placed in our firm.

Enjoy the holiday season in good health and happiness.

Investment Policy Committee

Abner, Herrman & Brock Asset Management

Founded in 1981, Abner, Herrman & Brock Asset Management manages portfolios individually structured to assist each client in achieving their investment objectives. Stock portfolios are managed utilizing a Core Equity philosophy, investing in both large capitalization value and growth disciplines with an objective of long-term, after-tax appreciation and below market volatility. Portfolios are diversified across economic sectors, industries and companies. Bond portfolios are managed to provide a high rate of current income and total return. Portfolios are invested in staggered maturities of U.S. Treasury, government agency and investment-grade corporate bonds and where appropriate, investment-grade municipal bonds. Portfolio managers are available to meet with clients upon request.

Please visit our website at www.ahbi.com for a more detailed description of our investment **Philosophy, Process and People.**