

KISS “Keep It Simple Stupid”

US government economists along with economists in academia and banking are projecting a slowdown in the growth of the US economy. The Federal Reserve is also concerned that the growth in the US economy will slow in the months ahead. As a result of their concerns the Fed has stopped increasing short term interest rates. The Fed has now indicated they are seriously considering lowering interest rates in an effort to avoid the prospect of slower growth in the US economy.

These forecasts are influenced by the slope of the Treasury “yield curve”. Today, interest rates on short term Treasury notes are virtually equal to the interest rates on the 10 year Treasury note. Historically, a flat or inverted yield curve has been an accurate forecaster of a slowdown in the economy as well as that of a possible future recession.

We believe that because of the changes that have taken place in the components of the US economy coupled with the dramatic efficiencies resulting from technological innovation, the relationship between a flattening yield curve and a future economic decline may no longer be valid. Our belief is grounded in the understanding that today’s short term interest rates are largely a result of actions by the Fed to raise short term interest rates. Intermediate interest rates as reflected in the 10 year Treasury note we believe are a more accurate measure of what the true market interest rate is today because the Fed does not control these rates. If our theory is accurate, it would imply that the outlook for future inflation is modest. Typically, the purchaser of a bond seeks to receive an interest rate of return equal to or greater than the expected rate of inflation as the incentive to own the bond. This premium is thought to be 1%- 2% above the inflation rate at a minimum for the highest quality bond such as a Treasury note. This implies a forecasted inflation rate of “0%-1%” percent. Therefore, we believe the flat or inverted yield curve is more a function of actions of the Federal Reserve raising short term interest rates rather than a forecaster of a potential future decline in the US economy.

With respect to historic forecasts of the US economy, the stock market has been a tried and true indicator of future economic activity. The US stock market brings together buyers and sellers from around the world based on a compendium of forecasts of future corporate profits. Today the US stock market is selling at historic highs primarily based on the forecasts of future growth of corporate profits. This is in spite of the many uncertainties involving trade negotiations, political unrest, and potential military actions. We are quite aware and sensitive to these uncertainties as well as the significant increase in the volatility of the US equity markets caused by program trading.

Recognizing and responding to these uncertainties, we have included the possibility of one or more of these events occurring as we structure clients separately managed portfolios. In equity portfolios or the equity portion of a client’s balanced portfolio, we have reduced client portfolios exposure in, cyclical, cycle growth and commodity stocks. We have replaced these with investments in companies that have a higher visibility of their future revenues and profits through recurring fee revenue. In bond portfolios and the bond portion of a balanced portfolio we ONLY invest client portfolios in Investment Grade bonds. We also maintain a duration or average maturity of 4 to 5 years unless otherwise directed by the client to do so.

We commit to each client our acceptance of the responsibility to structure a separately managed portfolio to achieve the owners desired investment objective. We recognize we are one of the few investment management firms that offer clients the ability to have their money invested in one portfolio with a balance allocation in both stocks and bonds allocated to their choosing. We are able to provide this as a result of the TEAM structure of AHB's investment process. Our Investment Team is comprised of both analysts and portfolio managers versed in both stock and bond investment experience and recognized ability.

During the past 20+ years as other investment professionals gravitated to specialization in an effort to seek above market returns, AHB remained using an Investment TEAM approach to provide reasonable risk adjusted returns for clients. AHB clients wish to have their assets managed in separate portfolios that will be structured to meet their investment objectives as opposed to having their assets in a Fund comingled with other investors, with a variety of investment objectives and risk tolerances.

Our Investment Team is supported by experienced Client Service and Relationship Management Teams available and able to respond to each Financial Consultant or client requests. They are fully knowledgeable in each of the AHB products and services and are able to answer questions or make available an Investment Team member to discuss a specific portfolio or investment strategy. Thus, AHB Relationship Managers and Investment Team members are available to all Financial Consultants as the need may arise. We welcome and encourage your interaction with us, as being a client, you too are now part of the TEAM to meet and achieve your investment objectives.

We look forward to continue to work together.

Have a pleasant and safe summer.

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**.