I apologize for not getting this email out before now. I contemplated changing it to a "Happy Groundhog Day" email but decided against breaking with tradition! It's been a busy few months for the Cascade Group/Parcion Private Wealth Team, and we're extremely excited for the new year!

Only once every 10 years do we get to usher in a whole new decade, which makes it an extra special New Year for sure! From a market perspective the last year (and decade for that matter) were certainly ones for the record books! The "2010's" saw the longest expansion in our country's history, and (not coincidentally) also the longest bull market. 2019 itself saw the 2nd best return in the S&P 500 in the past 22 years! Just about every other major market returned above its long-term average. While you wouldn't have known it if you read many of the headlines, based on the data, 2019 and for that matter the entire decade ended extremely successfully in the financial markets! I sincerely hope the past year (and decade) was filled with great memories and personal accomplishments for you and your family, as well!

I am always thankful for the support and friendship of our clients and partners, but never more so than this year. After over a decade of consideration, and 3.5 years of planning, The Cascade Group became Parcion Private Wealth. At this point most all of you have heard the important reasons for this change, so I

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won't go into all the details in this email. Suffice to say, we are very excited with the ability to improve on the safety/security of our clients' assets, gain access to current technology in the managing and reporting on those assets, and to no longer be limited on investment options. We appreciate all of your continued confidence in our ability to help you and your family achieve your goals. Our deep relationships with our clients are one of the aspects I enjoy most about my job, and it's something I never take for granted. Given all of that, I've been blown away with your commitment, energy, and excitement for this new chapter!

Of course, no amount of change is without some level of disruption, and I'm grateful for your patience and understanding, as we work to fully utilize all of our new capabilities. Change can be hard, but we're already seeing the new environment deliver improvements in almost all areas we provide services to the families with which we work.

As I've told many of you, I'd like to say we were the beginning of a trend in leaving a global multi-national bank for the Independent Advisor space, but it's actually a trend that has been gathering momentum for years. Due to availability of better tools, fewer conflicts, and more choices, the best advisors and largest families have been leaving, choosing to move away from large banks to an independent platform for two decades. The trend accelerated rapidly after the financial crisis. The fact that it took us a while to investigate all the pros and cons, make sure it was the best environment for our clients, and ultimately make the transition, really exemplifies our conservative approach. It might have also had something to do with me becoming a business owner for the first time at 51 years old, after 27 years in the business, and making the biggest single personal investment of my life! Many of you are business owners yourselves and have offered incredible advice and encouragement these past few months. I'll be forever grateful to you for that (with the possible exception of during some of those sleepless nights….).

One piece of advice I got during the process is that making a major change after a long period of the same thing, can sharpen us, make us better at what we do, and prepare us for more rapid change in the future. I believe that to be true and think there's a lesson there for all of us. As we enter the 11th year of the longest bull market in our nation's history, perhaps it's time to prepare for changes.

2019 Markets in Review

The S&P 500 finished 2019 up 29%, which was its best performance since 2013, and the second-best year of the decade long bull market. Outperforming even the "bounce-back" year of 2009 when the S&P appreciated 23.5%. The advance in equities has been broad-based. While small caps have lagged their larger U.S. counterparts, the Russell 2000 still finished up over 23%. Gains were also healthy for International markets, as the MSCI EAFE index finished up over 18%.[1]

That the stock market should have such a good year in 2019 was far from automatic. The hurdles stocks faced were considerable. The industrial economy weakened steadily throughout 2019, tariffs and a trade war measurably impacted business planning, fiercely partisan politics has hampered the ability to pass beneficial legislation, and corporate earnings growth has stalled. While there were many challenges, there were also a number of bright spots and favorable policy moves that gave investors reason to be bullish. Fed Chair Jay Powell moved beyond his rookie mistakes in 2018 that led to a severe market correction in the fourth quarter, and reversed course in 2019 and cut rates three times. Mainly, the unsinkable consumer was a key source of stock-market strength. Since shedding over 7 million jobs in the great recession of 2007-2008, the economy has been adding over 2 million jobs per year over the past decade, and the unemployment rate has shown a steady progression across the Obama and Trump presidencies, from a peak 10% level to the current 3.5%. With wage growth finally showing some upward movement, and low fuel costs, disposable incomes have been strong. All of this adds up to strong consumer confidence and spending (though not back to peak levels).[2]

Fixed income returns were also exceptional in 2019, driven almost entirely by price gains caused by further declining interest rates. Global growth concerns intensified in Q2 and Q3, which drove global yields sharply lower. The 10-year Treasury plunged over 130 bps from its 2.79% high in Jan. to 1.46% in Aug., the biggest drop since the global financial crisis. Yield curve inversion intensified over the summer, as well. As Q4 dawned, the easing of trade tensions caused some pessimism to dissipate and lifted core yields off their multi-year lows. The Fed cut rates 75bps in 2019 to 1.50-1.75% but has a median projection to hold rates unchanged in 2020.[3]

Gold is on track for a 19% 2019 gain. That would be the strongest performance since 2010, when gold rose 29.7% according to FactSet.[4] Lower U.S. bond yields,

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[1] All index results sourced from Bloomberg Finance L.P.
[2] Bureau of Labor Statistics
[3] Bloomberg Finance L.P.
[4] Factset Insight

persistent geopolitical risks, and ongoing U.S. economic uncertainty has helped to drive demand in the metal. With a weaker U.S. dollar narrative gathering steam into the election year, risk hedgers are starting to flock to the security of gold rather than the dollar.

2019 also saw unprecedented flows into private equity and venture capital investments. Inflows to venture capital and private equity funds have now eclipsed the flows into US equities during the late-1990s Technology Bubble. There is also roughly $2 trillion dollars of "dry powder" (i.e., capital committed by investors but not yet called by managers) waiting to be deployed.[5] Those flows can be reversed quickly as we've seen in the past. While low cost of borrowing looks to continue to support this trend in the near future, this is certainly an area of the market that has resembled the irrational exuberance that has preceded past bubbles.

Not Bearish; Just Cautious

As good as the year has been, it's incredibly hard to imagine 2020 even approaching a repeat performance in the major asset classes. A year ago, I wrote that markets don't go up when conditions get "good", but when things get "less bad". The reverse can be true when markets go down. In that environment, as fundamentals appear "less good", eventually the market has to reset expectations. The problem is that as leading indicators start to soften as they are now, such information can start to get rationalized away by investors and analysts. This can cause markets to ignore a breakdown in fundamentals for a period of time at the end of economic cycles. We've all heard the "this time is different" rationale whether it was towards the end of the tech bubble or the period leading up to the financial crisis. The trouble is that this period of the market decoupling from the fundamentals can last quite a while (even years, as it did during the late 90's). We've all witnessed that when the market does finally "wake-up" to fundamentals, the adjustment can be incredibly swift and painful.

The approach of maintaining adequate exposure to growth assets, while being cautious at this stage of the cycle and preserving liquidity to take advantage of volatility, has driven our current positioning. We're mindful that in trying to squeeze the last bit of returns out of what is already the longest bull market in history, there is a danger of not being properly prepared for the next market downturn.

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[5] Richard Bernstein of RBA Advisors

Last year as I wrote this email the market was at the depths of a correction that took it within a whisker of a bear market (-19.80% on the S&P 500), and I stated our position that this was an opportunity; that the pullback was not supported by the fundamentals.[6] We all know what happened since then. While we do believe 2020 will likely be another year where the stock market outperforms most other asset classes, it's current pace could take it farther away from what the fundamentals support. Caution is warranted.

Looking Back at 2019 Themes

It's always interesting, if not a bit dangerous, to look back at my analysis of a year ago. While with a prior firm, I shared views about what our group thought would be most important in the coming year. These themes help us position portfolios on a tactical level. They can cause us to lean in a certain direction, while maintaining the investment policies we have in place for each of our clients. Let's look at what I wrote a year ago:

Equity Markets Would Likely Outperform in 2019
While this looks like the easiest call ever with hindsight, at the time the market (and most investors) were preparing for the next recession. Corporate earnings growth was slowing globally, we were threatening an all-out trade war with China, and the Fed was aggressively raising interest rates! The US market had sold off almost 20% and other markets around the world much more than that.[7] I argued that all leading indicators continued to point to an economic expansion, a recession wasn't anywhere in sight, and if corporate earnings could grow the estimated 4% and the market multiples returned to average levels, the market could return over 20% in 2019. As it turns out, corporate earnings only grew around 2%, market multiples are now above average levels, and the S&P 500 Index returned around 29%![8]

International Would Likely Lead the Way
International markets as a whole actually lagged the U.S. markets, however, they were still up 22% for 2019.[9] Last year I maintained that after underperforming the U.S. markets for a number of years, International Developed markets could finally take the lead. While trading at historically large valuation discounts to the U.S., a strengthening U.S. Dollar, an increasingly friendly U.S. regulatory environment, and a threatened and real trade war that

[6] Bloomberg Finance L.P.
[7] Bloomberg Finance L.P.
[8] Bloomberg Finance L.P.
[9] MSCI Index Data

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affected some of our international trading partners more than domestically, caused the relative valuation difference to actually grow. While missing this theme for 2019 (spoiler alert), we look to carry it over in some respects to 2020.

The Fed Likely to End Its Tightening Cycle

This was another call that was counter to most calls, and the one I was actually most worried about getting right. I argued that the "neutral" interest rate level was structurally lower in the current environment, than in past cycles. As it turns out, not only did the Federal Reserve halt its tightening cycle, they actually lowered rates three times in 2019! Whether it was succumbing to pressure from the President, or acknowledging the breakdown in fundamentals I've been referencing, the market certainly viewed the moves positively.

Another Election Cycle Starts the Circus Again

This view simply took enough foresight to look at the calendar. Every four years we go through this cycle, which tend to be accompanied by an increasing amount of outrageousness. While election news in 2019 was mostly around how many potential Democrat challengers could fit on a debate stage, we are witnesses to only the third Presidential impeachment process in our nation's history. Never a dull moment! Last year I did note that markets generally outperform as we get closer to a Presidential election. Since people generally vote based on how secure they feel financially, it behooves the incumbent administration to do everything in its power to ensure the economy and the markets are humming along as we head to the voting booth. I contend that President Trump may be tuned into this dynamic and focused on the stock market, more than any of his predecessors. It's hard to count on above average performance continuing, as historically the actual election year has been the worst for investors of the four years of a presidential term.[10]

2020 Themes

Newton taught us that objects in motion tend to stay in motion. That is certainly something to keep in mind when dealing with the current market environment. The Greek philosopher Heraclitus also taught us that "change is constant". I'm not sure who would've won in a fight between these two, but my money is on Heraclitus (the Greek invented wrestling, and Newton seemed pretty passive). So, while I do expect the momentum of this market to continue through the end of the year at least, I'm also confident that this year and this decade will not resemble the last. It's for this reason, we try to look around the next corner for

[10] Bryan Borzykowski, CNBC

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opportunities and risks that could help us prepare for the change that is inevitable.

The Year Earnings Start to Matter

Generally speaking, the stock market will track the growth of corporate profits. Corporate earnings grew over 25% in 2018, and the S&P 500 actually finished the year down -4.38%. Earnings fell in 2019, yet the S&P 500 returned 30% for the year. There are many reasons why the past two years didn't follow that pattern, but I believe 2020 is the year that earnings will matter. The drastic slowdown in profitability growth in 2019 was in part due to the massive profit growth in 2018 caused by the corporate tax cuts. Hard to replicate that effect! But earnings were also affected greatly by tariffs as corporations, rather than raise prices for consumers, ended up eating the effective tax. Most predict earnings growth will return to a more normal 6-8% in 2020, which would imply a similar return for the S&P 500. This would be fine coming off the year we just had, however, continued tariffs and pressure from rising wages could throw a wrench in those numbers. In which case the market could struggle.[11]

How To Avoid a Bubble By Moving To China

There are five defining characteristics beyond speculation that are common to historical financial bubbles[12]:

- Increased use of leverage
- Increased liquidity
- Democratization of the market (a push to give everyone access)
- Record new issues
- Record turnover

From what I can tell, most all of these characteristics seem evident in the Private Equity market, as well as in some technology or "disruptor" stocks, and venture capital. As we look back on the last couple of decades, it's interesting to compare Private Equity returns to that of Emerging Market Equities.

- 2000-2009: Private Equity Index = 2.06% per year; Emerging Markets Index = 15.82% per year
- 2010-2019: Private Equity Index = 22.28% per year; Emerging Markets Index = 3.35% per year[12]

It occurs to me that investors hoping to continue the returns they've been getting from their Private Equity allocations, might be smart to look to Emerging Markets over the next decade. In fact, with China markets reeling from the trade war, and now the Coronavirus, it seems like a very good entry point for long-term investors. One that we will be taking advantage of. [13]

[11] Yahoo Finance
[12] Scott Barlow, The Globe and Mail
[13] Bloomberg Finance L.P.

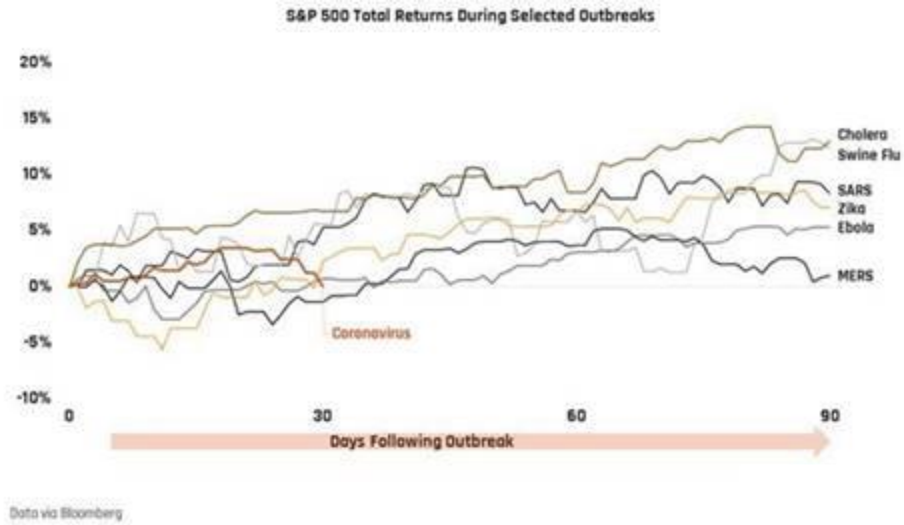
Speaking of The Coronavirus

Over the past few days, the world has been hit with terrifying news, a viral outbreak has killed at least 900 people and has closed transportation of Wuhan, China, a city of 11 million people. For comparison, consider the population size of New York City or London, then add an additional 20% to that figure, and you will have a better understanding of the magnitude of the lockdown occurring in China. Even if you have little understanding of various viruses and their potential threats on a person's health, just knowing that an order as huge as shutting down a city of that size has been executed is enough to take the threat of the coronavirus very seriously.

Globalization has not only intertwined economics, but health, communication, travel, culture, and many other facets of everyday life. Therefore, when it comes to emotional investing, you would be hard-pressed to find a more compelling example than the potential of a deadly virus spreading from one corner of the world to another. Many investors can close their panicked eyes and quickly imagine a world in deadlock, rapidly changing the logistics of entire supply chains as well as the daily life of a parent coordinating their child's afterschool pickup line. While the short-term implications can quickly lead our imaginations down a slippery slope, a quick glance at the previous outbreaks of the 21st century can provide a helpful reference point.

Below you will find a chart of the S&P 500 with a mark designating the first report of each major outbreak. As you can see, while each outbreak was very serious, the impact on large companies in aggregate has not proven to be negative. Furthermore, attempting to sidestep an outbreak by selling stocks and waiting for a selloff to reenter the market has been an even more challenging endeavor as the selloffs tend to be quick and short-lived. Alternatively, the inherent volatility that coincides with a pandemonium such as this, can provide an opportunistic entry point for exposure we favor on a fundamental basis. This is how we are approaching the current situation. [14]

[14] Bloomberg Finance L.P.



<u>Don't Count Out Inflation</u>

Call me paranoid, but I always get nervous when everyone is in total agreement on something related to the market or the economy. It's the situation we seem to find ourselves in when discussing inflation. Until very recently, I spent my entire 27-year career trying to explain why I thought interest rates could continue to go lower. While most investors still viewed the double-digit inflation of the 70's and 80's, and the interest rates that accompanied that environment, as what will (or could) eventually return. As interest rates zig-zagged lower and lower, each step seemed less sustainable. Finally, interest rates hit a point where "negative rates" became part of the lexicon, and we've all refinanced our mortgages so many times thinking it would be the last time for sure! We've gone from a consensus of "rates can't stay down for long" to "lower for longer" or this is just the "new normal". It's not only investors, but most economists have changed their tune. Looking at the multitude of "Year Ahead: 2020" reports this year, there's barely a mention of the threat of inflation if at all. Knowing the market will eventually prove most people wrong, it's hard to find an area outside of Private Equity that's riper for some hard lessons!

Inflation dissipated to its low levels over the past 30-40 years in part due to globalization and the increase in productivity that causes. Over the past 10 years in fact, core import price increases were consistently below the US Core Consumer Price Index (measure for inflation). In other words, the US has been "importing deflation". We're now seeing an end to globalization through trade wars, the fraying of alliances, populist governments, barriers to immigration, and even military tensions. This threatens to have the opposite effect on inflation that has given us the past 30 years of improving relative prices. You add in the fact

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that tariffs, by definition, are inflationary, Fed policies are currently very pro-inflation, and historically low unemployment rates are bound to put upward pressure on wages, it's hard to see why everyone is leaning in the "low inflation for longer" camp. In fact, if we take a step back and look at the five-year trend in core inflation, it's actually rising at the fastest pace in 30 years! [15]

Source: Bloomberg Finance L.P.

Politics

If you're like me, there's a part of you that wishes you could fall asleep and wake up mid-November. After a week of Iowa Caucus buffoonery, and a State of The Union speech filled with reality show theatrics from both sides of the aisle, it's clear we're going to need to keep our sense of humors about us this year! As I mentioned above, while the incumbent administration is incented to make sure the economy is strong when everyone goes to the polls in November, the fourth year of a Presidential term is historically the worst year for the markets. Why? The likely reason is uncertainty. Investors favor continuity, and this election year in particular has the potential of a very wide spectrum of outcomes (from Trump to Sanders/Warren).

Regardless of your political leaning, the most market-friendly result in the short-term would be another four years of the Trump Administration. As the election plays out, it'll be interesting to watch how the market adjusts. In fact, if you want to follow the election, but not expose yourself to the schoolyard type of behavior that characterized the election of 4 years ago, you could do worse than just follow a couple market sectors: Aerospace & Defense and Energy (Trump), or Clean-Tech and Consumer Staples (Democrats). Just trying to save you some time watching the news and reading Facebook…

[15] Bloomberg Finance L.P.

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Parcion Private Wealth Team Highlights

New Team Members

Over the past year we welcomed three new team members, as we reinforced our ability to provide world class service.

- Galen Camp – Joined in July as a Client Experience Manager
  - Galen specializes in assisting clients with administrative and operational items including asset transfer, account opening and maintenance, banking and lending services
  - Galen was previously a Client Associate with Merrill Lynch for the previous two years.
- Olivia Evans – Joined in July, also as a Client Experience Manager
  - Olivia assists clients with administrative and operational items, as well as helping to manage and market team events, and acting as my Executive Assistant (no small task to be sure!)
  - Olivia graduated from the University of Oregon the past June with a double degree in Finance and Entrepreneurship
- Mary Johnson – Joined in August, as a Relationship Manager
  - Mary leads advanced planning implementation for our clients including financial planning, insurance strategies, college planning, charitable giving, portfolio implementation, and lending solutions
  - Prior to working with the team, Mary was a financial advisor with Charles Schwab for the past four years.

Achievements

- As a team, we were recognized by Forbes Magazine in 2019 as the top practice in Washington state for the second year in a row, and in the top 100 nationally (#36) for the fourth year in a row.[15]
- Kyle Caouette, my business partner of now 13 years, was named the #1 Top Next Generation Financial Advisor for the third year in a row and was ranked top 30 nationally at #22.[16]
  - He was also honored as one of UBS' Top 35 Financial Advisors Under 35 for the fourth year in a row.[17]
- Finally, we were also recognized as one of the top 1,200 practices in America by Barron's for the 11th year in a row.[18]

Community Involvement

An important value for our firm is community service, and this year we continued a tradition of volunteering as a team to help a number of great local organizations. This year we once again volunteered our time with Jubilee Reach of Bellevue, participated in 'The Big Climb' in support of the Leukemia and Lymphoma Society, and individually for a variety of important organizations like Big Brothers Big Sisters of Puget Sound, Children's Hospital, Seattle Humane, Keiro Northwest, and numerous others. We also note how inspirational many of you are to us in your service and philanthropy, both locally and abroad. Inspired by the work of many of you and our own passion for giving, we've pledged that a significant portion of Parcion's profits will go directly to causes benefitting our community. We're very excited for the ability to give back in any impactful way!

From all of us at Parcion Private Wealth, thank you more than ever for the opportunity to work together and for the trust you place in us. We wish you a happy, healthy, and prosperous 2020!

Cheers,
Terry

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Footnotes:
[1] All index results sourced from Bloomberg Finance L.P.
[2] Bureau of Labor Statistics
[3] Bloomberg Finance L.P.
[4] Factset Insight
[5] Richard Bernstein, RBA Advisors
[6] Bloomberg Finance L.P.
[7] Bloomberg Finance L.P.
[8] Bloomberg Finance L.P.
[9] MSCI Index Data
[10] Bryan Borzykowski, CNBC
[11] Yahoo Finance
[12] Bloomberg Finance L.P.
[13] Scott Barlow, The Globe and Mail
[14] Bloomberg Finance L.P.
[15] Forbes', Top Advisors
[16] Forbes', Top Next-Gen Wealth Advisors
[17] UBS, 2019 – 35 Under 35
[18] Barron's, Top 1,200 Advisors

This year's Forbes' Best-In-State Wealth Advisors list spotlights over 2,000 top-performing advisors across the country who were nominated by their firms – and then researched, interviewed, and assigned a ranking within their respective states.

The Forbes' 2018 Top Next-Generation Wealth Advisors list includes 1,000 young, talented advisors who represent the future of the wealth management industry. Each advisor was nominated by their respective firm, then vetted and ranked by shook research.

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