SEELEY
CAPITAL MANAGEMENT

FINANCIAL STRATEGIES FOR SUCCESS

QUARTERLY OVERVIEW

CHRIS SEELEY

Christopher J. Seeley founded Seeley Capital Management in 2004 with a single purpose – to help clients meet their immediate and long-term financial goals by providing an unparalleled level of service, advice and accessibility. By creating a boutique financial services firm, built on the foundation of Bank of New York's Pershing platform, he has been able to maximize efficiency and flexibility without sacrificing resources and capabilities.

For nearly 20 years, Chris has helped clients protect and grow their assets, secure their legacies and address the unique challenges that clients face. He has advised private wealth clients since 2002, working as a Financial Advisor at UBS Paine Webber in Boston then at Smith Barney in Springfield, Massachusetts. Chris graduated with B.A. in Philosophy from George Washington University. He is an active member of The National Structured Settlement Trade Association.

STEVE HOWARD

Steven T. Howard joined Seeley Capital Management in 2018 following a 20-year career creating and managing client portfolios at Morgan Stanley and predecessor companies. As a Managing Director based in New York, he focused his attention on helping high net worth individuals build and preserve wealth using a disciplined, process-based approach to investing. Steve has also held various strategy and research positions within Citigroup.

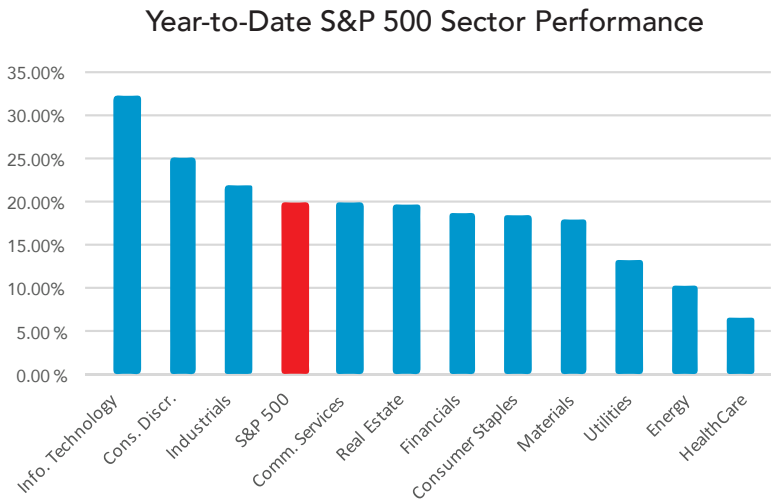
He spent two years managing the Citi Private Client Investment Strategy team in London and worked as the financial services strategist for Smith Barney in New York. Steve attended Middlebury College, where he graduated with an honors degree in history. He also received an M.B.A. degree in Accounting and Finance from New York University's Stern School of Business. Steve's background in portfolio management, asset allocation, and macroeconomics is a perfect complement to Seeley Capital's client-first approach to wealth management. He has long emphasized the importance of accountability and accessibility as critical components of the client-advisor relationship. Steve lives in Longmeadow, MA with his wife and four children.

QUARTERLY OVERVIEW

Market action during the second quarter of 2019 helped shed light on several ongoing themes we have been following:

- First, global growth continues to show signs of deceleration;
- Second, central banks around the world continue to play a major role in driving investor behavior; and
- Third, responsible savers are hard-pressed to find attractive sources of income.

In these pages, we examine what happened during the quarter and discuss these three themes.



Equities suffered a mid-quarter swoon in May, though the malaise proved short-lived. Investors quickly shoved aside disappointing economic data and slowing earnings growth. Instead, they focused their hopes on a potential breakthrough in trade tensions and the Federal Reserve's ability to reaccelerate growth through accommodative monetary policy.

This helped U.S. stocks post their best June in over 60 years and left major U.S. indices at or near all-time highs.

For the quarter, Russell 3000, a broad-based US index, posted gains of 4.77%, leaving the index up more than 18.71% for the year on a total return basis. Larger stocks outperformed smaller stocks during the quarter, while "growth-oriented" stocks outperformed value during the quarter. International equities generated solid results as well, rising 4.26% for the period. Emerging markets stocks lagged, generating returns of 1.98%. From a sector perspective, Information Technology led the market higher, while HealthCare stocks finished at the end of the pack.

Equities weren't the only asset class to post a strong first half. Corporate bonds generated returns of nearly 10%, as measured by the Bloomberg Barclays U.S. Credit Index. Commodities, however, slumped during the quarter, as slowing global growth and fears of a prolonged trade dispute led to a 1.18% decline for the Bloomberg Commodity Index. The yield on the 10-Year U.S. Treasury Note continued its march lower as well, shedding nearly 50 basis points (a basis point is 0.01%) during the quarter and ending at 2.0%. The growing cohort of negative-yielding debt around the world has caused yet another round of inflows for credit markets, as income-starved investors reach for positive real returns. According to our analysis, this has resulted in the narrowest spread between investment-grade bonds and high-yield in a dozen years. Put another way, the difference between yields on the lowest-rated tranche of investment grade debt (BBB) and the best of the high-yield market (BB), is now only 60 basis points.

Rising markets calmed investor fears and soothed the market; indeed, the CBOE Volatility Index, or VIX, retreated nearly 50% during the first six months of 2019. According to Barron's, this was the largest first-half decline on record going back to 1990. While not back at the lows seen in early 2018, we see signs that equity market participants have grown increasingly complacent – even as fundamentals continue to deteriorate.

THE ECONOMY

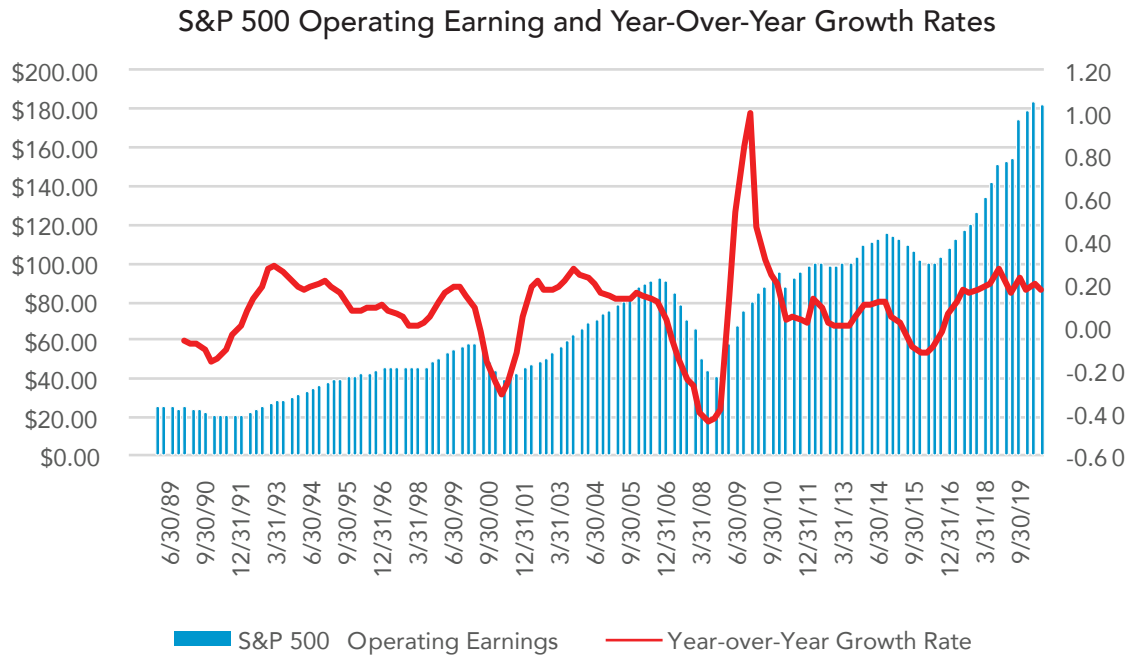
Investors appear optimistic that the recent détente between China and the US regarding tariffs will ultimately lead to a sustained and favorable resolution. This, coupled with the "dovish" stance taken by the Federal Reserve amid still-positive economic growth, appears to have left many feeling that the risk of another significant market drawdown remains low. Behind the scenes, however, growth has continued to moderate. This is likely due to the fading effects of the tax cuts enacted in late 2017 and the bite of existing tariffs taking their toll. With little prospect of further tax cuts, we expect to see GDP growth return to the approximate 2% pace that it averaged between 2010 and 2016. It is important to recognize, though, that economic growth should remain positive – barring a major unforeseen shock.

What gives us some confidence that overall growth can remain positive over the medium term? Cycles don't end because of old age; they end because excessive optimism leads to over-investment or over-production in the economy. Our analysis suggests that none of the cyclical sectors of the economy, such as autos, housing, capital expenditures, or inventories appear over-extended. Nor does there appear to be a particularly dangerous area of financial excess. Simply put, without a "bubble," there is nothing to pop. However, that doesn't mean isolated areas of the economy cannot undergo stress, as we saw with Energy between 2014 and 2016.

We would be remiss if we didn't point out that one of the most strikingly prescient indicators for the economy has flashed a warning sign. Over the past 60 years, when short-term interest rates yield more than longer-duration rates, there has been a recession in every instance. This is called an inverted yield curve. Well, June 30, 2019 marked the day where the yield curve was inverted for a full quarter. This simple indicator has never provided a false positive. It should be noted that it has never been used during a time of so much non-traditional central bank involvement in the bond market.

EARNINGS & VALUATION

Investors should take note that one does not need a recession to see negative returns for the market. In early 2016, the average stock dropped more than 30% from its 52-week high despite continued growth in the economy. With corporate profits at or near all-time highs, we see difficult year-over-year comparisons. Profit growth was extremely strong for most of 2018, but slowed appreciably, from 32% year-over-year growth in the third quarter to just 3% in the fourth quarter. While there is some noise in the fourth quarter numbers, we expect the trend of slowing profits to continue throughout 2019. According to data compiled by Factset, S&P 500 earnings are expected to decline by 1.9% in the second quarter (down from an estimate of -2.7% three months ago). For the calendar year 2019, analysts currently expect earnings to grow by just 2.3%. This deceleration is not only due to the fading "effects" of the tax cuts, but also as a result of dampening global trade, slightly higher interest costs, higher input costs for materials, and the margin impact of higher wages.



Source: Factset (Data as of June 28, 2019)

Continued sluggish economic data overseas has started to bleed into the US. This coordinated global slowdown has spurred central bankers around the world into action, and recently investors have pivoted from slowing fundamentals to the prospect of further stimulus from central banks. Trade tensions remain the main wild card for international markets. So for now, the tug-of-war between slowing demand (caused in part by trade tensions) and policy easing will continue to determine the path of growth overseas.

As we have noted in the past, international markets are not homogenous, so selection will be key. Accordingly, investors should not expect to see a smooth acceleration in growth; the process will likely be choppy. To us, the critical discussion point is the extent to which any improvement in growth expectations will lead to further upside in the market. Some have pointed out that lofty expectations are already built into current valuations, given that global equities have enjoyed a nearly 20% jump in the price/earnings (P/E) ratio on a combination of higher prices and lower earnings expectations. Global equities trade at a distinct discount to their US peers, as investors around the world have flocked to the better relative growth found here at home.

POSITIONING — STAY THE COURSE, BUT DON'T STICK YOUR NECK OUT

One could be forgiven for thinking that things are pretty good right now – unemployment is low, the economy is growing, and stocks are at new all-time highs. Things are good, as they should be more than 10 years into the recovery. Beneath the surface, however, we see signs that at the very best, growth is unlikely to get much better and, at worst, could disappoint.

We continue to recommend that investors upgrade the quality of their portfolios and pivot to more defensively-oriented sectors in their equity portfolios like utilities and REITs (Real Estate Investment Trusts). High-quality growth stocks should also continue to do well, but selectivity is key. If growth slows further many of these stocks could disappoint on earnings. In our view, certain "cult" stocks in the technology space and those elsewhere with bloated balance sheets could be particularly vulnerable, given the recent evidence of a slowdown in capital spending. Once these expectations adjust to more realistic outcomes or the stocks correct appropriately, it may be time to become more constructive on equity markets, including small-caps and economically-sensitive (high-beta) stocks.

At this point in the cycle, the greatest challenge for investors is to avoid getting complacent. Companies that trade at valuations that would have been alarming five years ago are now seen as attractive because they are seen through a lens that has been warped by nearly a decade of earnings growth and low discount rates. Being flexible is an important trait for an investor in a continuously changing investment landscape, but one cannot stray from the things that matter through a cycle. That is why all of our decisions remain rooted in our time-tested investment process.

In a world characterized by claims of #fakenews and polarized worldviews, sentiment remains a critical input when investing. With all of the noise out there, we believe it is the successful interpretation of facts, data and real information that helps generate strong returns over the long term. When there is universal optimism, it usually leads to medium-term results that fall well short of historical average returns. Similarly, those brave souls that have the ability to increase allocations when there is universal pessimism can generate outsized returns.

BIZARRO WORLD!

(NIRP* IS SWEEPING THE WORLD)

*NIRP STANDS FOR NEGATIVE INTEREST RATE POLICY

Comic book fans may remember that in the 1960s, DC Comics created a fictional planet called Bizarro World where everything proved to be the opposite of its normal state here on earth. In popular culture, the term has now come to describe a situation or dynamic that is strangely inverted or counter to one's expectations. We bring this up not because we are starting a Seeley Capital Comic Book Club, but because there are some peculiar things happening right now out there in the world that are targeting our most responsible citizens: The Savers!

What's so strange? What if I told you that around the world, there are approximately $14 trillion of bonds (securities originally designed to pay their owners a fixed-income stream for the life of the bond) that possess a NEGATIVE yield? Put another way, you buy the bond and you pay the borrower to hold the bond. This sounds "bizarro" to us! And while nominal yields here in the States are still positive, they will have a hard time keeping pace with inflation and don't provide enough for most people to live on currently. At a 2% coupon, one would need to put a massive $5 million to work in 10-Year Treasury notes to earn $100,000 per year. Negative interest rates are kryptonite to savers and income-oriented investors? What's the antidote?

FIRST AND FOREMOST, DON'T TAKE UNDO RISK TO INCREASE YOUR YIELD.

What do you mean? Typically, the safest assets possess the lowest yield for a given maturity. As credit worthiness deteriorates, one expects to be rewarded for the increased risk of not being paid back. This is called the credit spread. As the economic cycle has progressed and as central banks around the world have expanded their bond buying programs, the spread between the highest-quality issuers and lowest-quality issuers has narrowed considerably. To us, this means that investors may not be adequately rewarded by reaching for yield right now.

What can I do? With underlying growth slowing, we recommend that investors remain patient and wait to invest in high-yield bonds until the current complacency turns to fear.

SECOND, WITH THE YIELD CURVE INVERTED, YOU CAN FIND SIMILAR YIELDS WITHOUT LOCKING YOUR MONEY AWAY FOR LONG PERIODS.

What do you mean? For most of the past 10 years, short-term interest rates were stuck near zero percent. However, since 2015, the Federal Reserve has embarked on a tightening cycle that has taken short-term rates up past 2.25%, which is well above the latest yield on 10-year paper. Why lock it up when you can get the same or better rate of return on fixed-income instruments that have short maturities (and daily liquidity with no volatility).

What can I do? We have identified several money market funds that can provide safe, current income with daily liquidity.

THIRD, HIGH-QUALITY, INCOME-ORIENTED EQUITIES COULD PROVIDE SIMILAR YIELDS AND PROVIDE THE POTENTIAL FOR CAPITAL APPRECIATION OVER TIME.

What do you mean? Dividend income's contribution to the total return of the S&P 500 Index has exceeded 40% between 1930-2018, according to data compiled by Hartford and Morningstar. The strong 10-year performance of the stock market has obscured the longer-term power of dividends. With bond yields so low, we now see plenty of examples where high-quality equities possess the same or better yields than government bonds. The inherent volatility of the equity market may not make it suitable for all income investors, but for those with long-term time horizons, high-quality, dividend-oriented equities may be an attractive option. And don't forget that with equities, investors get to participate in the growth of the enterprise through higher dividend payouts, earnings growth, and share repurchases.

What can I do? We have spent nearly two decades examining companies for strong financial flexibility, attractive balance sheets, and strong free cash flow. Ask us about our income-oriented portfolios.

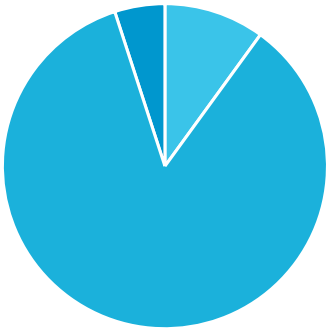
FOURTH, NON-TRADITIONAL ASSETS COULD BE A SOURCE OF ATTRACTIVE RISK-ADJUSTED YIELDS.

What do you mean? We spend a significant amount of time doing due diligence on a variety of unique potential investment solutions. Many do not pass muster, as they are too complicated, too risky; or just plain haven't delivered on their stated goals. However, over time, we have found a handful of potentially compelling alternatives to the traditional trifecta of stocks, bonds and cash. For some investors, it may make sense to look at these alternative assets. These range from fixed, guaranteed payment streams to disciplined, independent managers using a successful, time-tested process.

What can I do? Call us to schedule a meeting. We'll sit down together to identify the optimal solution for your unique situation and risk tolerance.

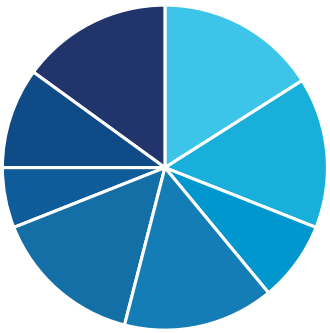
SEELEY CAPITAL TACTICAL ASSET ALLOCATION FRAMEWORK

Model	Strategic	
1. Cash Management	**100%**	**Rep. Holding**
Money Market - Liquid	10%	FDXCASH
Money Market Fund	85%	VMMXX
Market Neutral	5%	CVSIX



Model	Strategic	
1. Conservative	**100%**	**Rep. Holding**
Cash & Liquid Reserves --	20%	VMMXX
Inflation Protected Securities	5%	VTIP
Domestic Fixed Income	15%	DBLTX
Foreign Fixed Income	10%	BNDX
Market Neutral	15%	CVSIX
Balanced Fund	15%	BALFX
Dividend-Oriented Equity	0%	VIG
Classic Defensive (Utes)	10%	PUI
Domestic Equity	10%	YACKX

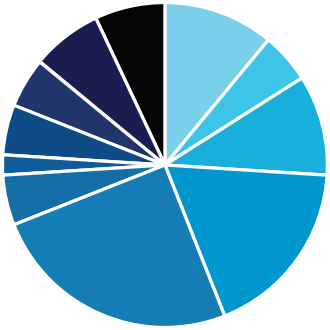
Model	Strategic	
2. Moderate Conservative	**100%**	**Rep. Holding**
Cash & Liquid Reserves --	16%	VMMXX
Domestic Fixed Income	15%	DBLTX
Foreign Fixed Income	8%	BNDX
Market Neutral	15%	CVSIX
Balanced Fund	15%	BALFX
Dividend-Oriented Equity	6%	VIG
Classic Defensive	10%	PUI
Domestic Equity	15%	YACKX
Foreign Equity	0%	VEA



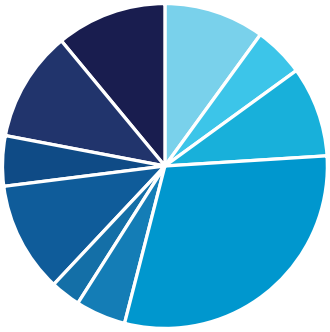
The models advertised herein are not designed based on the individual needs of any one specific client or investor. In other words, it is not a customized strategy designed on the specific financial circumstances of the client. You are also provided the opportunity to place reasonable restrictions on the securities held in your account. Investing involves risk. Depending on the types of investments, there may be varying degrees of risk. Investors should be prepared to bear loss, including total loss of principal.

Model	Strategic	
3. Balanced	**100%**	**Rep. Holding**
Cash & Liquid Reserves	11%	VMMXX
Domestic Fixed Income	15%	DBLTX
Foreign Fixed Income	9%	BNDX
Market Neutral	10%	CVSIX
Balanced Fund	20%	BALFX
Conservative Equity	15%	YACKX
Core Equity	5%	HGIIX
Dividend-Oriented Equity	5%	VIG
Tactical Overweight - PUI	5%	PUI
Tactical Overweight - VNQ	5%	VNQ
Foreign Equity	0%	VEA

Model	Strategic	
4. Opportunistic Growth	**100%**	**Rep. Holding**
Cash & Liquid Reserves --	11%	VMMXX
Foreign Fixed Income	5%	BNDX
Market Neutral	10%	CVSIX
Balanced Fund	18%	BALFX
Domestic Equity	25%	YACKX
Dividend-Oriented Equity	5%	VIG
Foreign Equity	2%	VEA
Domestic Alpha Driver	5%	QQQ
Tactical Overweight -- IBB	5%	IBB
Tactical Overweight -- PUI	7%	PUI
Tactical Overweight -- VNQ	7%	VNQ



Model	Strategic	
5. Long-Term Growth	**100%**	**Rep. Holding**
Cash & Liquid Reserves --	10%	VMMXX
Global Fixed Income	5%	BNDX
Market Neutral	9%	CVSIX
Domestic Equity	30%	HGIIX
Domestic Alpha Driver	5%	QQQ
Foreign Equity	3%	VEA
Dividend-Oriented Equity	11%	VIG
Tactical Overweight -- IBB	5%	IBB
Tactical Overweight -- PUI	11%	PUI
Tactical Overweight -- VNQ	11%	VNQ



OUR SERVICES

FINANCIAL PLANNING

Cash Management and Investments
Retirement Planning and 401(k)
Stocks, Bonds, Mutual Funds
529 College Savings Plan
Insurance and Annuities

INSURANCE SERVICES

Term Life Insurance
Permanent Life Insurance
Care Insurance

SETTLEMENT PLANNING

Comprehensive settlement valuation
Mediation support
Personalized needs analysis and structured settlement design
Availability to assist both claimants and defendants

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