

Market Update - Oct 2019

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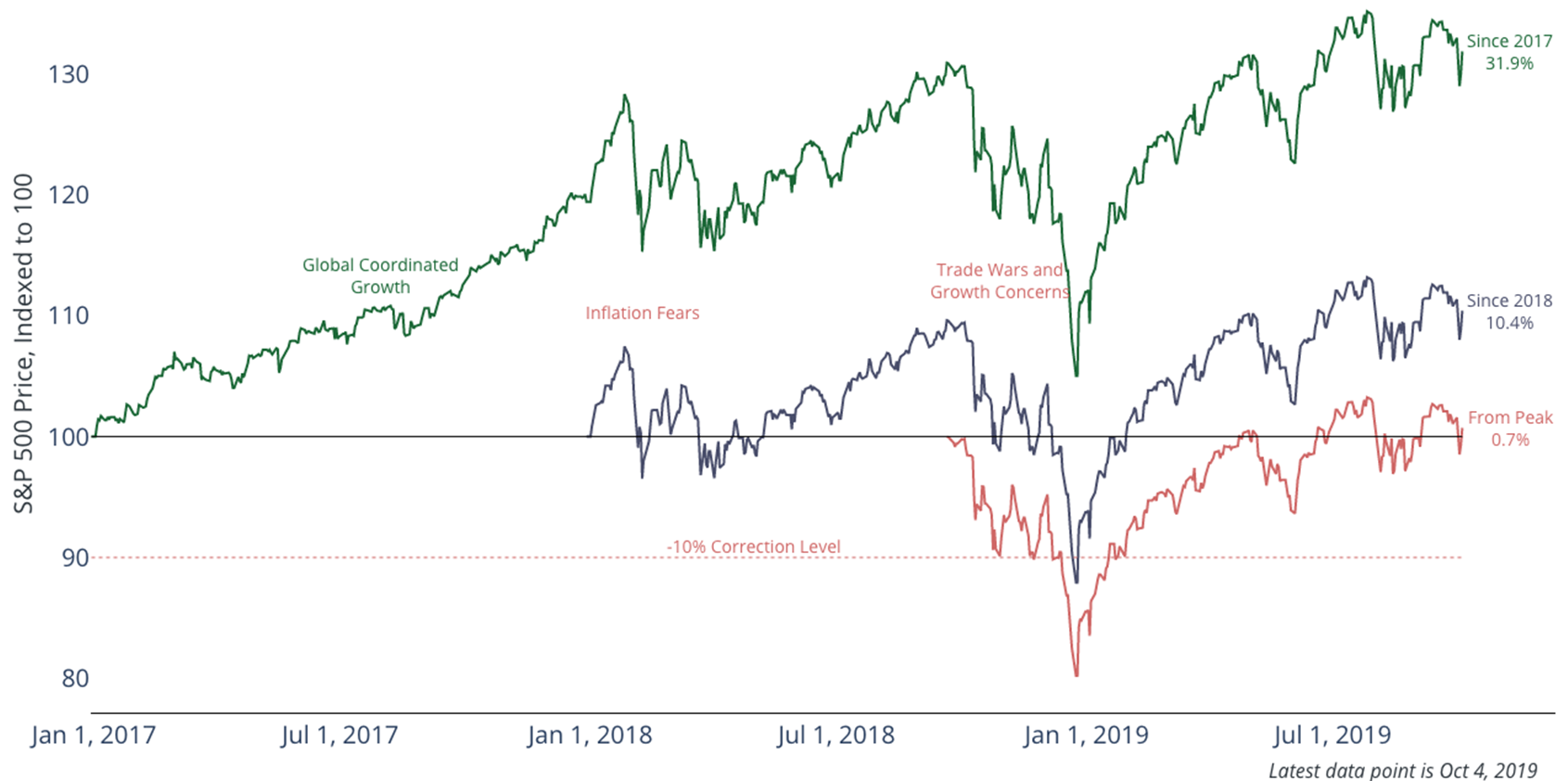
For actual results that are compared to an index, all material facts relevant to the comparison are disclosed herein and reflect the deduction of advisory fees, brokerage and other commissions and any other expenses paid by Kaizen Financial Strategies, LLC 's clients. An index is a hypothetical portfolio of securities representing a particular market or a segment of it used as indicator of the change in the securities market. Indexes are unmanaged, do not incur fees and expenses and cannot be invested in directly.

Key Dynamics Impacting Markets

- Key dynamics affecting Financial Markets
 - Trade war, dollar strength, election year coming
- Recession – Not if, but when (need to be ready)
 - Yield curve inversion, earnings growth slowing, rates already low
- Fundamental economic data still positive
 - Inflation, unemployment, wage growth

Stock Market Returns in Perspective

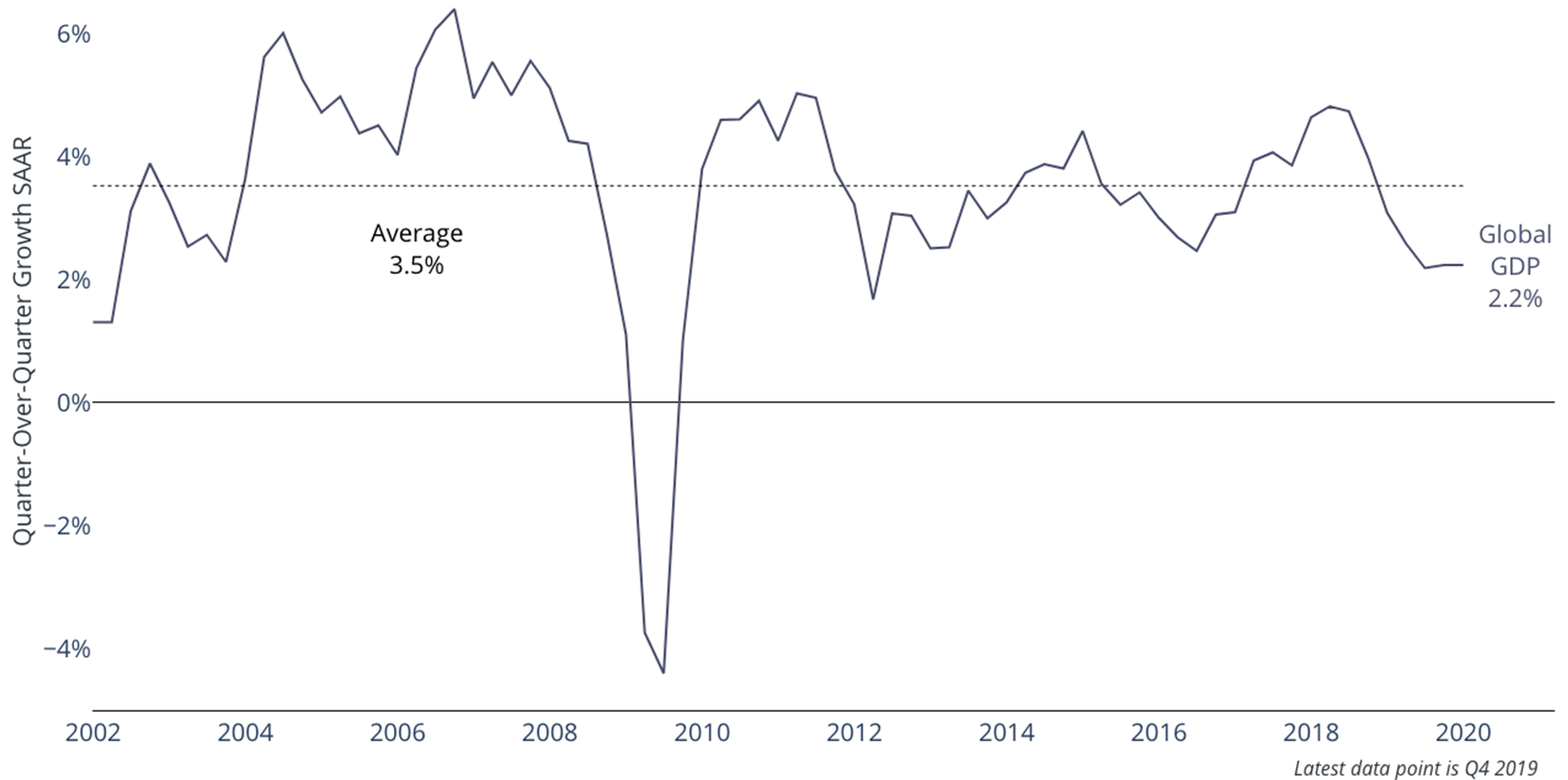
S&P 500 Index over different time periods, reindexed



Global GDP Growth

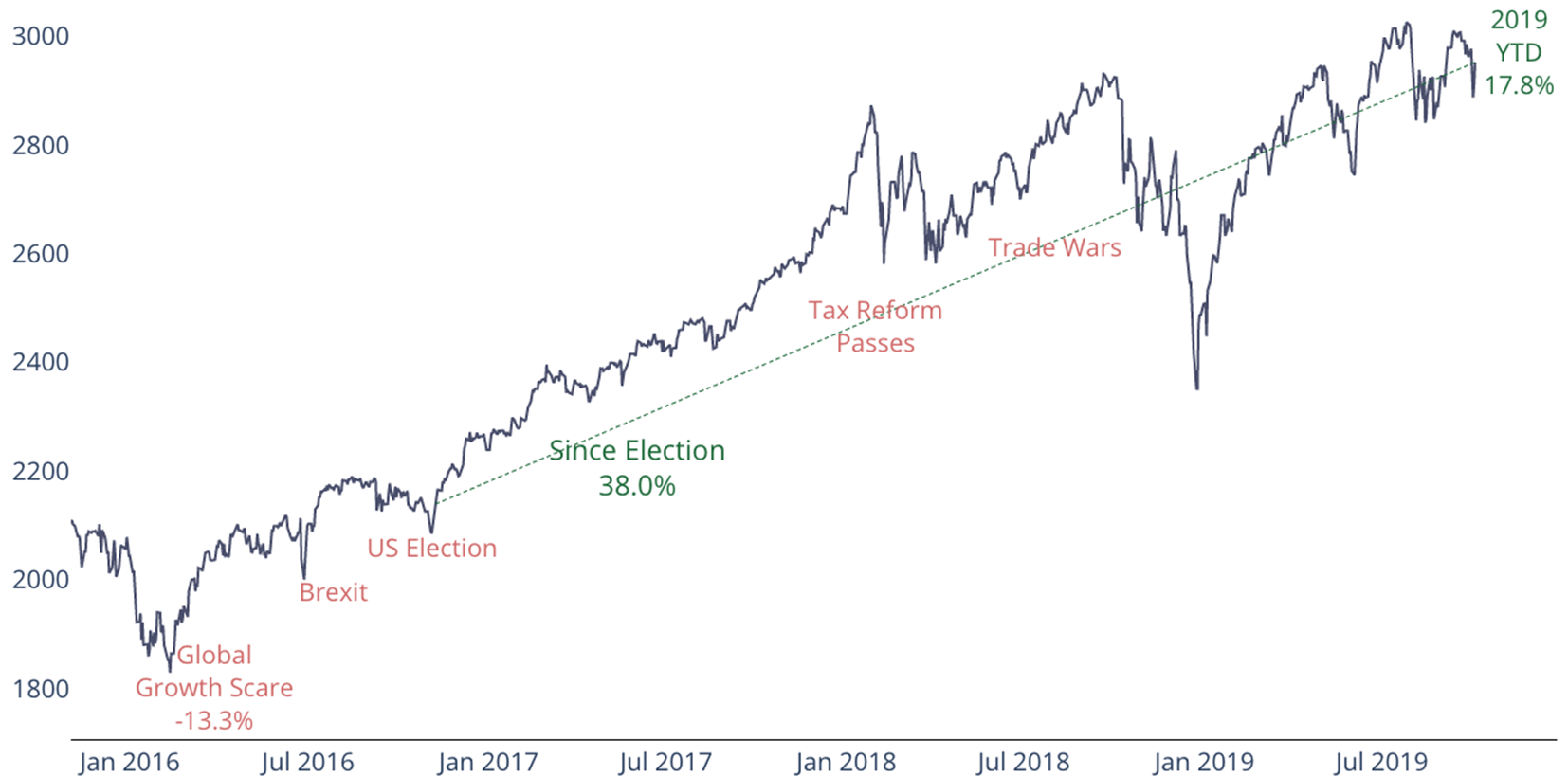
Bloomberg Economics Global GDP Tracker

Quarter-over-quarter, seasonally adjusted annual rate



Stock Market Performance

S&P 500 Index, recent period



Latest data point is Oct 4, 2019

Developed Market Recent Performance

MSCI EAFE Index (USD)



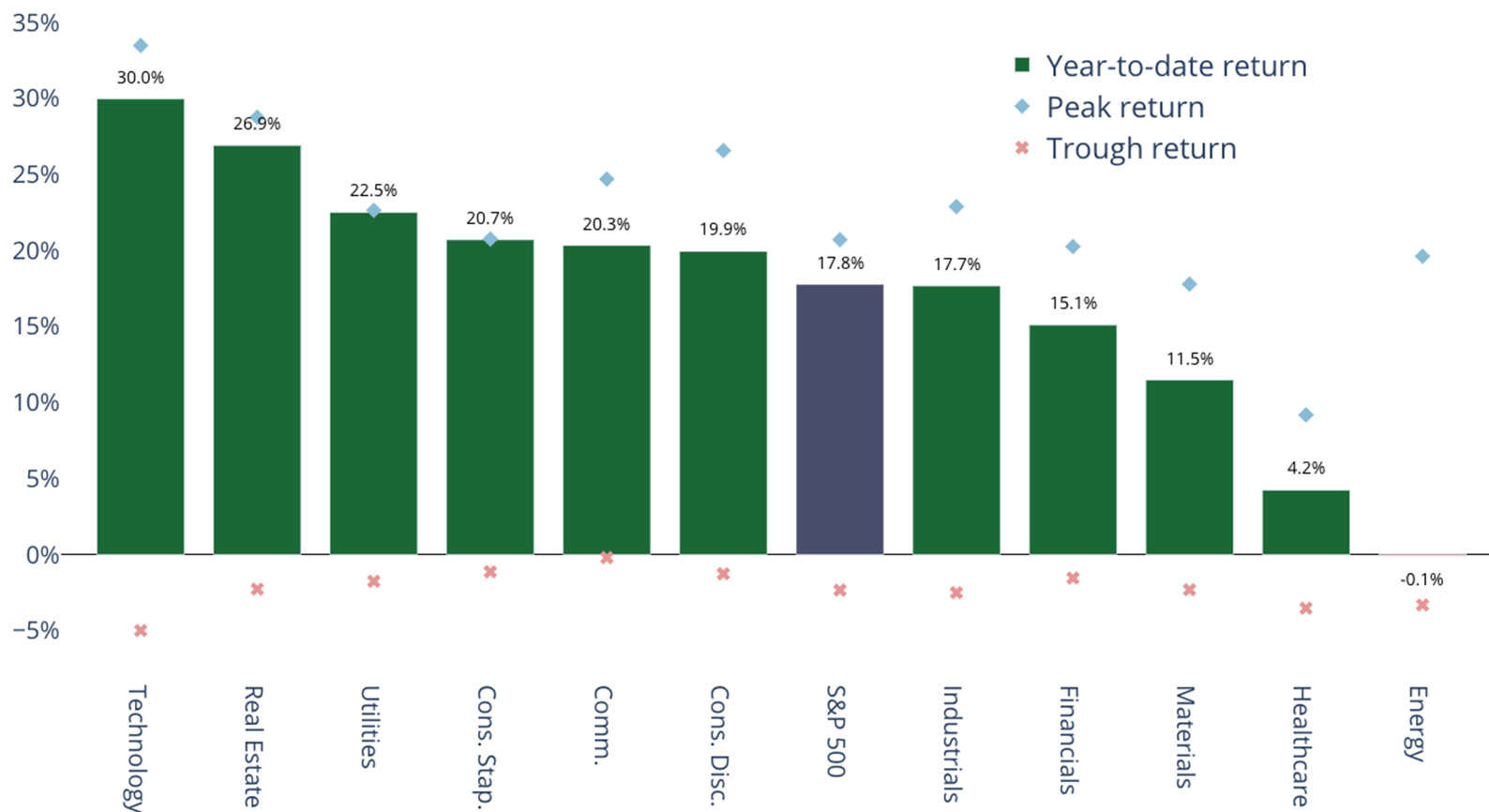
Emerging Market Recent Performance

MSCI EM Index (USD)



Sector Returns – Year-to-Date

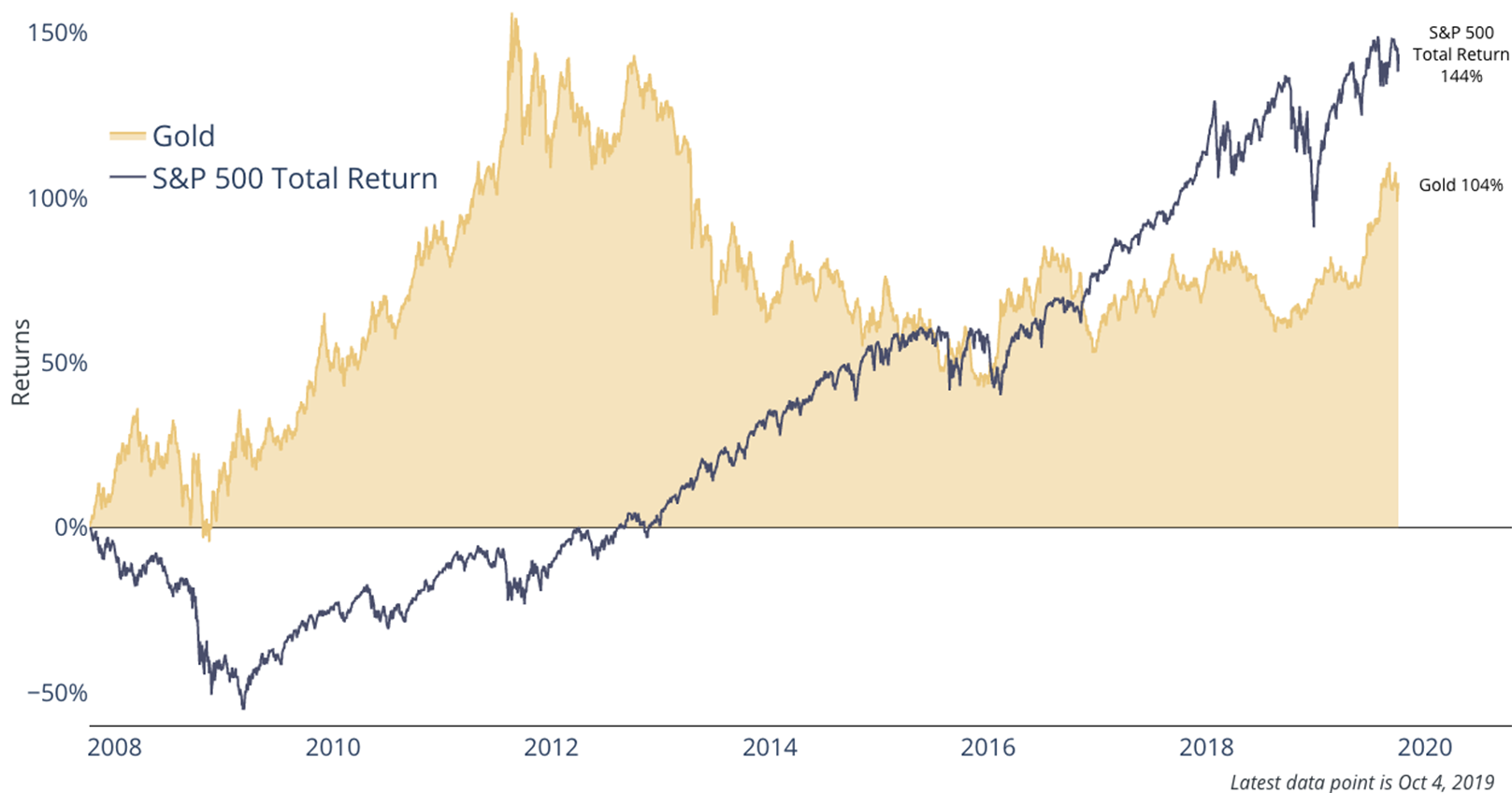
S&P 500 sector year-to-date, peak and trough returns



Source: Clearnomics,
Standard & Poor's,
Refinitiv

Gold and the Stock Market

S&P 500 total returns and gold returns since prior cycle peak in 2007



Source: Clearnomics,
Refinitiv,
Bloomberg

Historical Interest Rates

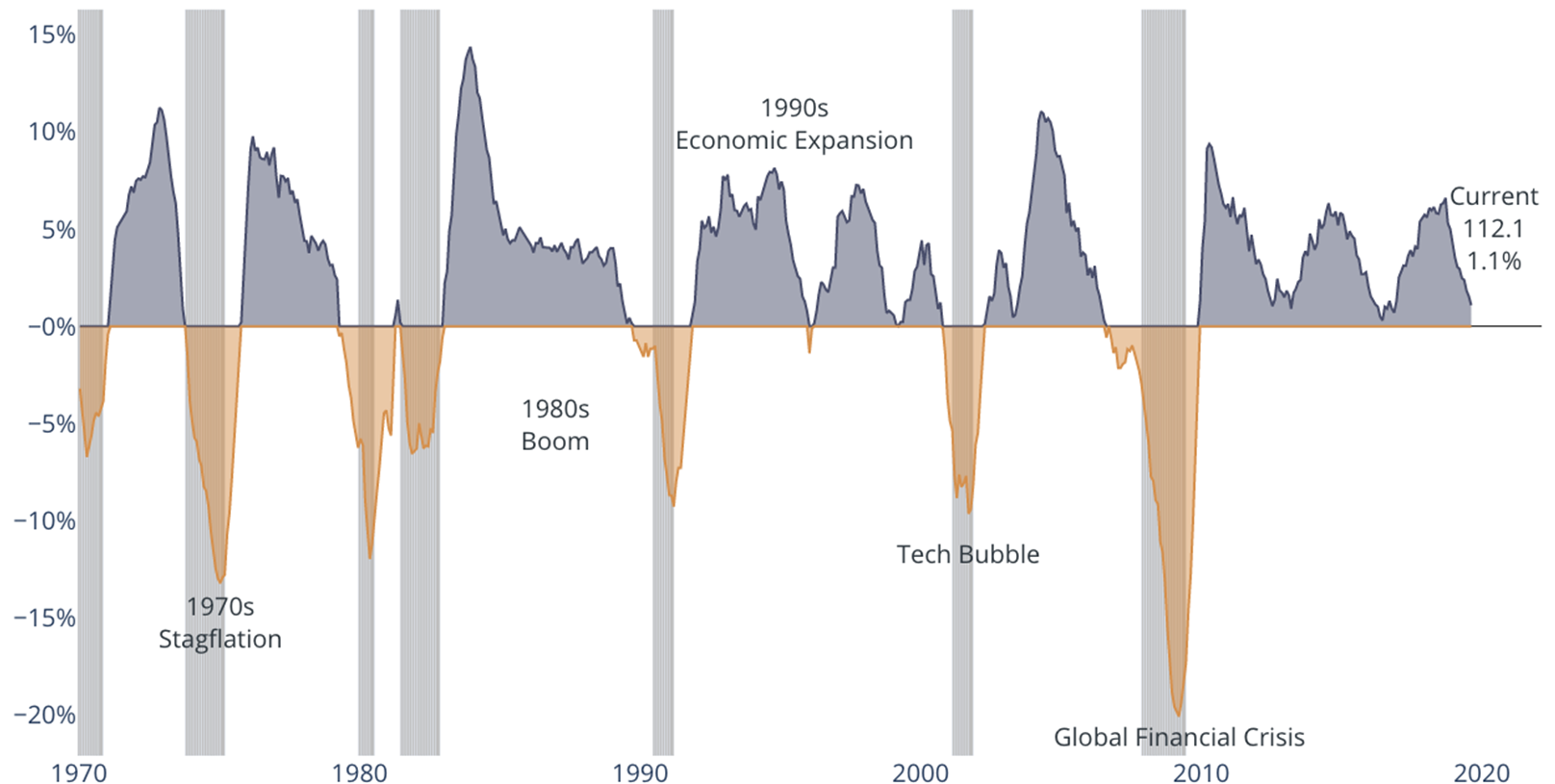
10-year and 2-year yields since 1960



Leading Economic Indicators

Conference Board LEI year-over-year percent change

Recessions are shaded

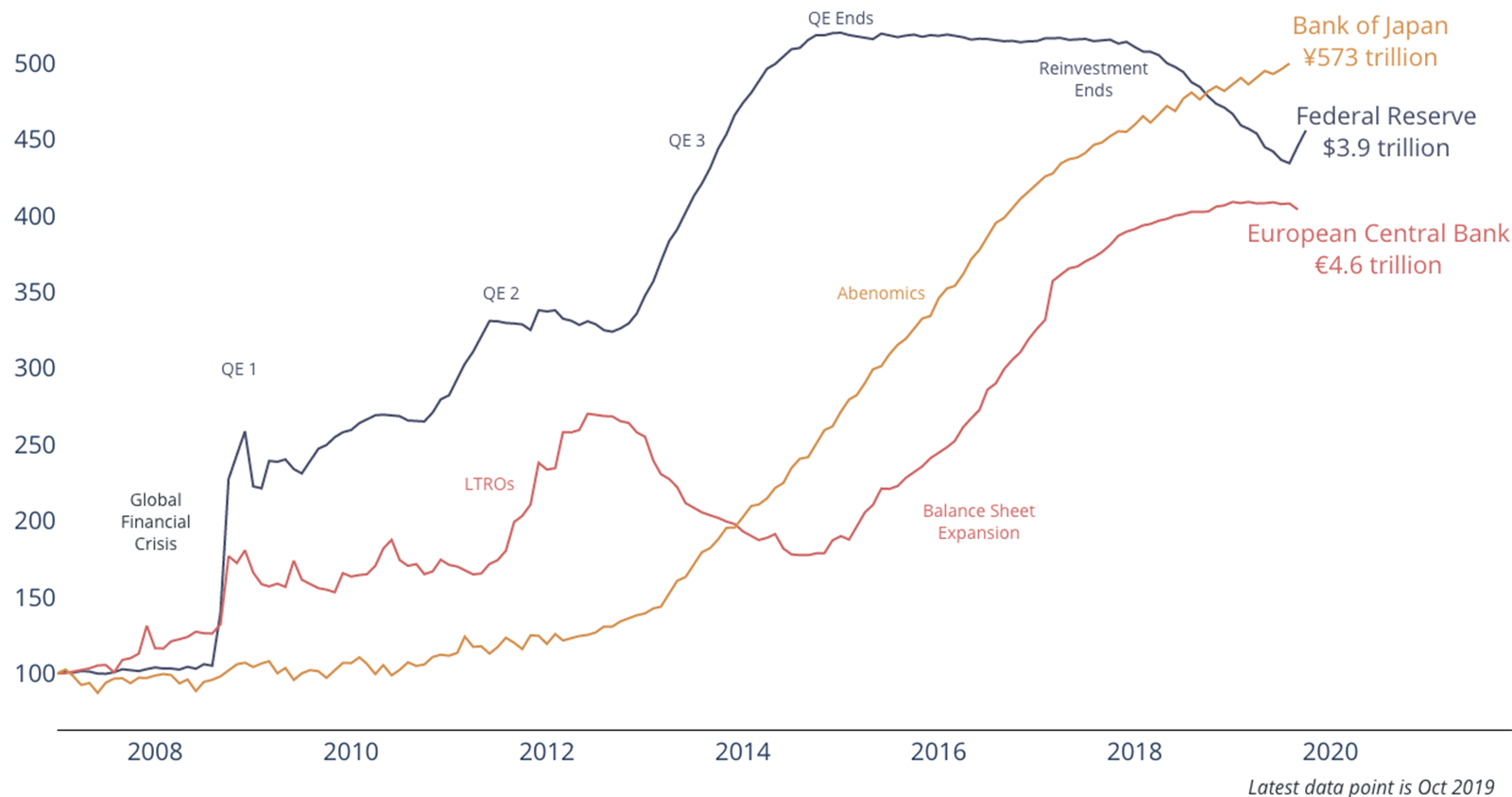


Latest data point is Aug 2019

Source: Conference Board,
NBER, Refinitiv

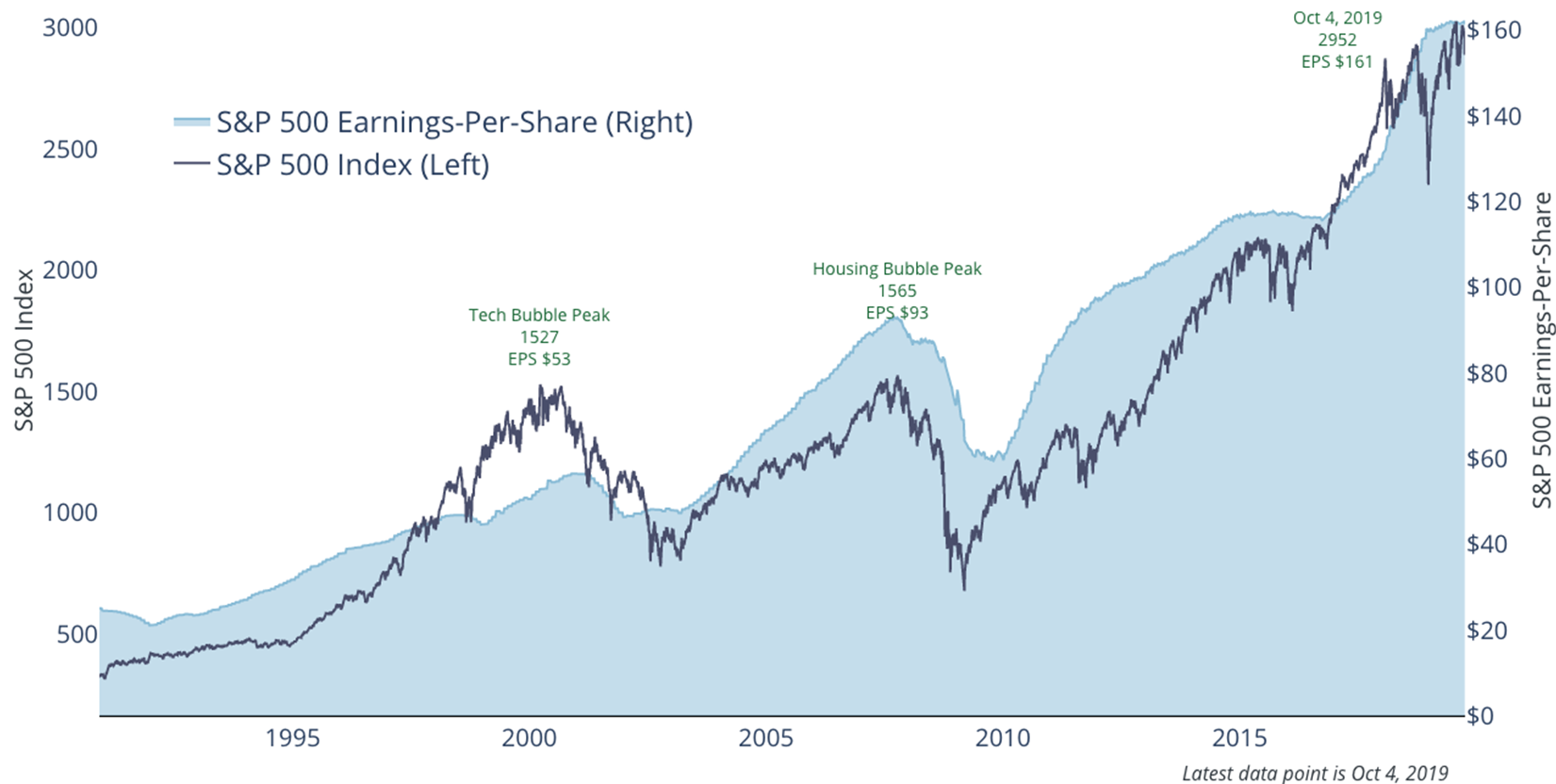
Global Central Bank Balance Sheets

Indexed to 100 in 2007



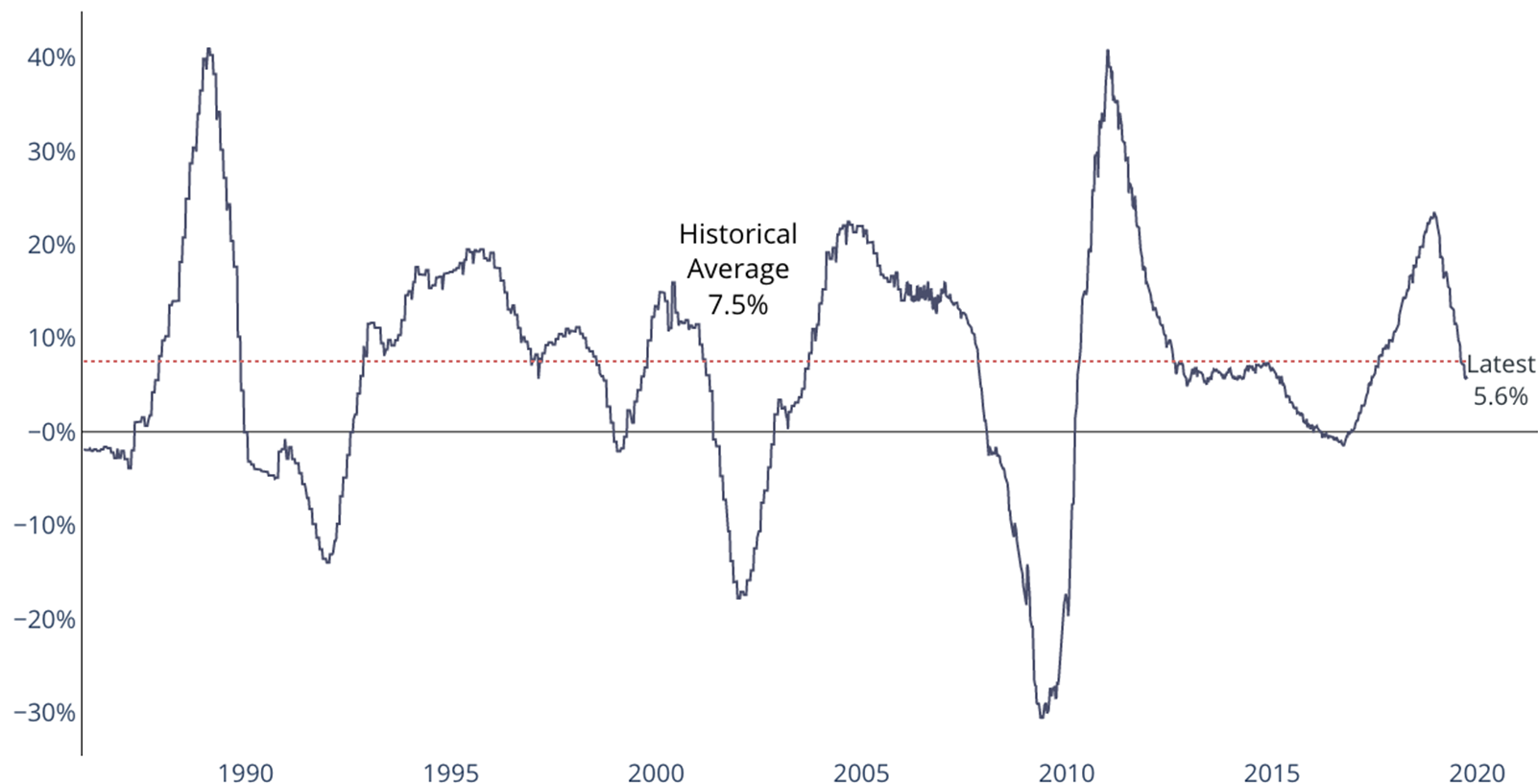
The Stock Market and Earnings

S&P 500 Index price and trailing earnings-per-share since 1990



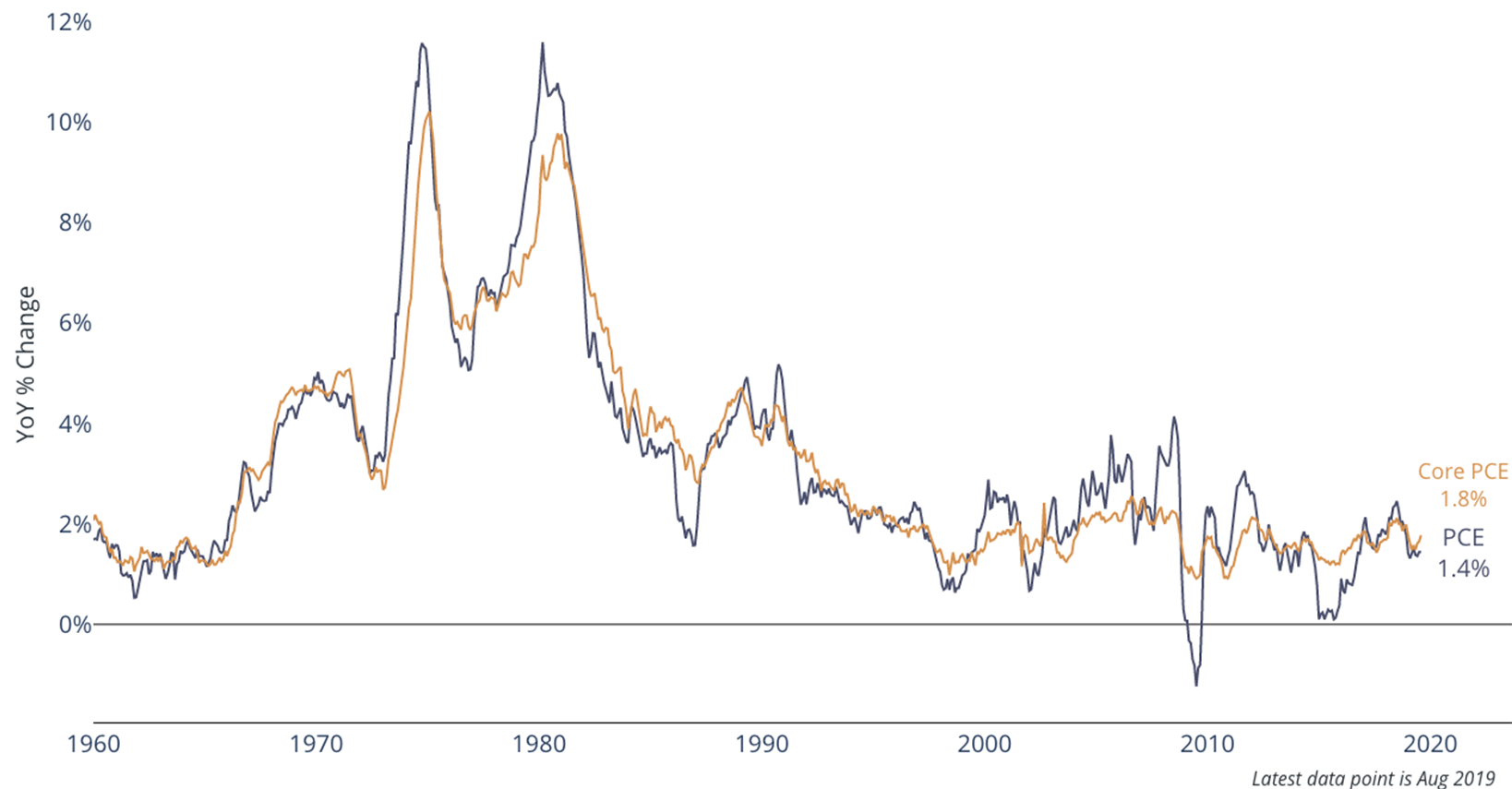
S&P 500 Earnings Growth Rate

Trailing 12 month earnings per share



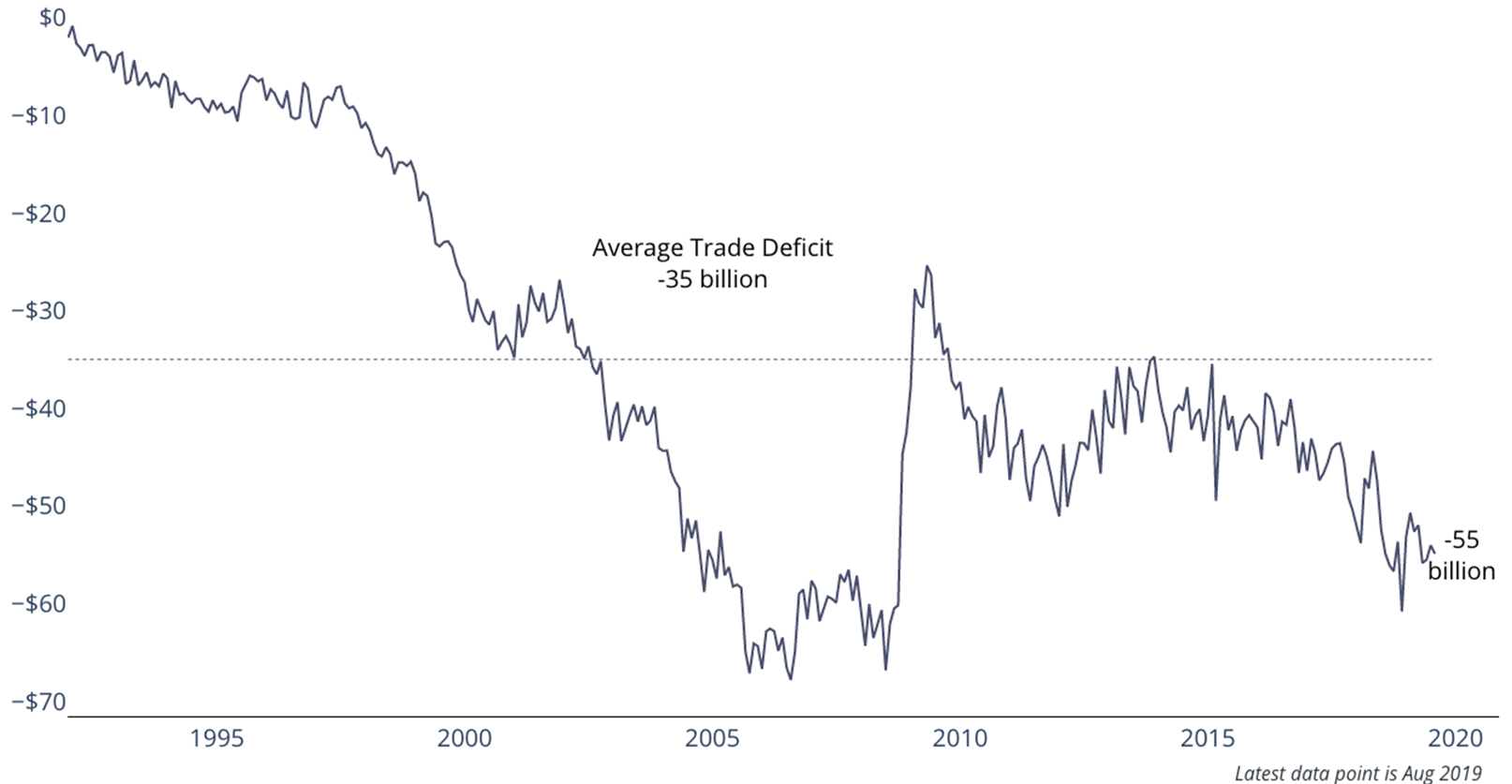
Latest data point is Oct 1, 2019

PCE Inflation



U.S. Trade Balance

Goods and Services, Monthly



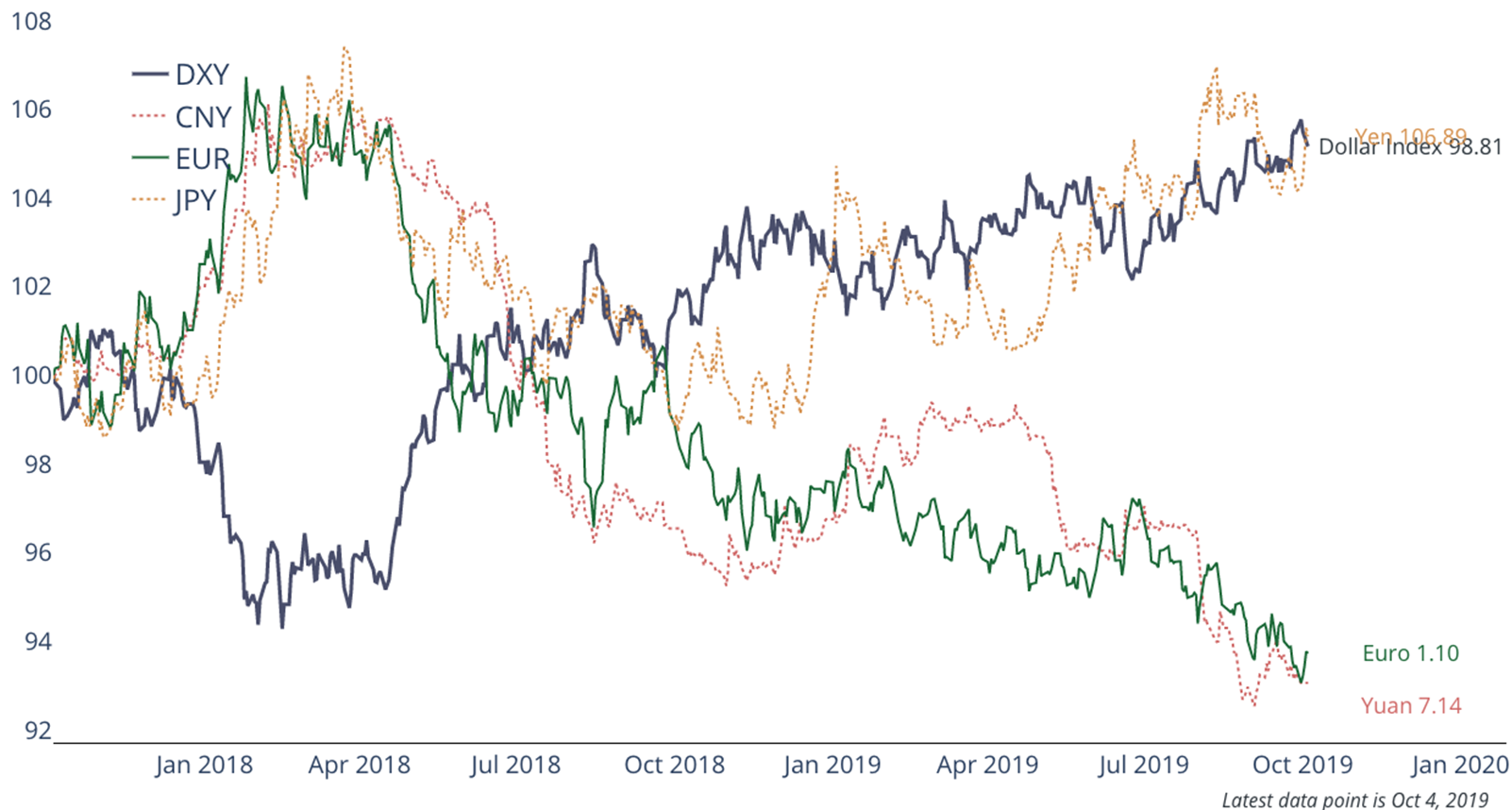
U.S. Trade Balance by Country

Goods and Services, 2017, in Billions of US Dollars



Major Currencies

Relative change over the past 24 months



Summary of Portfolio Changes This Quarter

Portfolio components	Directional changes	Comments
Market Geographies	<ul style="list-style-type: none"> • US – maintain • Developed Intl. – reduce • Emerging – maintain 	<ul style="list-style-type: none"> • Brexit, trade war, weaker international currencies, global economy slowing
Size (Market Cap)	<ul style="list-style-type: none"> • Large – maintain • Medium – maintain • Small –maintain 	<ul style="list-style-type: none"> • Stability, dividends during troughs, potential recession • Small/Mid cap has more volatility risks
Sectors	<ul style="list-style-type: none"> • Technology – Maintain (LT growth focus) • Industrials – reduce • Utilities – maintain • Real estate - maintain • Healthcare – reduce • Consumer disc. – maintain • Energy – maintain or reduce, no new positions 	<ul style="list-style-type: none"> • No strong convictions • Defensive where appropriate
Fixed Income	<ul style="list-style-type: none"> • High yield – reduce • Investment grade – increase • Treasuries – Intermediate term 	<ul style="list-style-type: none"> • Interest rates going lower
Cash	<ul style="list-style-type: none"> • Maintain or slight increase 	<ul style="list-style-type: none"> • Depending on client's income needs (or readiness for investing during dips)

Investors' Potential Approach to Current Market

- Quality/fundamentals focus in holding selection
- Ensure emergency reserves (Don't sell when it is low)
- Getting ready for tax season / Tax loss harvesting
- Charitable contributions – taxable or qualified sources?
- Open enrollment season – need to review?
- Upcoming client events
 - Annual client party – Nov 23
 - Jan 09 (Q1) market webinar + Cyber Security presentation

Thank you!

Kaizen Financial Strategies, LLC

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Definitions and Methodology

The **S&P 500** is a market capitalization-weighted index of large cap U.S. stocks. U.S. **mid cap** and **small cap** are the S&P 400 and S&P 600, respectively. **Value** and **growth** are the corresponding Standard and Poor's value and growth indices.

MSCI EME is an index of emerging market stocks. **MSCI EAFE** is an index of developed market stocks. **MSCI ACWI** is an index of global stocks.

The **forward P/E** is a ratio of the current market price of an index divided by an estimate of earnings over the next twelve months. The **Shiller P/E** is based on Robert Shiller's cyclically adjusted price-to-earnings ratio.

The **AAll Investor Sentiment** index is based on a weekly survey conducted by AAll.

Unless stated otherwise, **earnings** and **valuations** data are from Refinitiv indices.

The **LEI**, or Leading Economic Index, is produced monthly by the Conference Board.

Consumer sentiment indices are based on surveys conducted by the University of Michigan Surveys of Consumers.

Asset Class Performance and Asset Classes Relative to U.S. Stocks charts: The EM, EAFE, Small Cap, Fixed Income and Commodities are these indices, respectively: MSCI EM, MSCI EAFE, Russell 2000, iShares Core U.S. Bond Aggregate, Bloomberg Commodity Index.

The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 30% U.S. Large Cap, 10% Small Cap, 15% International Developed Equities, 5% MSCI Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

The **Bloomberg Commodity Index** is a broadly diversified basket of physical commodities futures contracts.

The **DXY** is a U.S. dollar index based on a basket of currencies, including the Euro, Yen, Pound, Canadian Dollar, Swedish Krona and Swiss Franc.

Portfolio Risk/Reward and Portfolio Drift Since 2009 charts: stocks and bonds are the S&P 500 and iShares Core U.S. Bond Aggregate, respectively. Each portfolio represents a hypothetical stock/bond asset allocation.

The **MSCI Factor** indices are created and maintained by MSCI to capture factor returns. They cover various factors including Quality, Size, Momentum, Volatility, Value and Yield. The Multi-Factor index tracks the performance of Value, Momentum, Quality and Size.

The **MSCI USA** index tracks large and mid cap U.S. stocks.

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