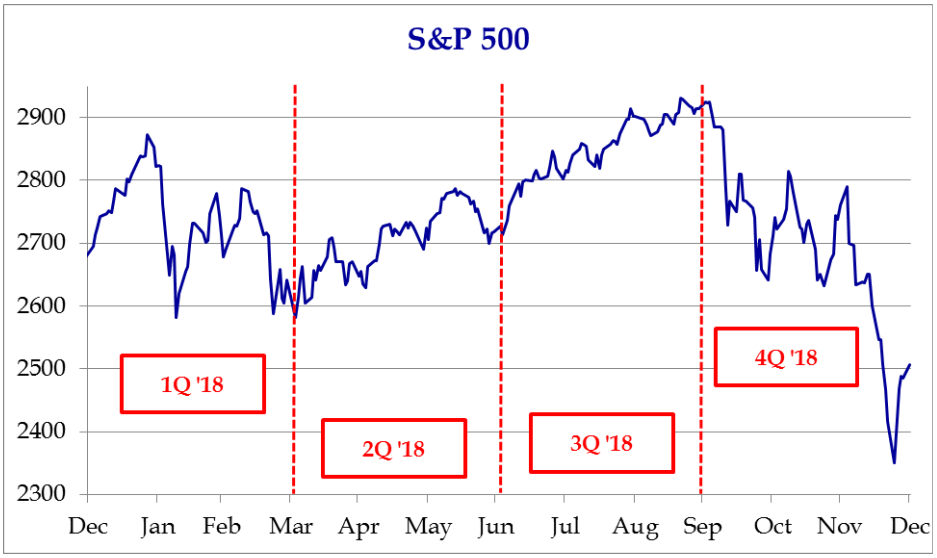
YEAR-END REVIEW AND FORECAST

CHART I



Source: Strategas

After a strong surge in stock prices since the 2016 elections, the U.S. equity market finally suffered a sharp and painful correction during the final quarter of 2018. As with most corrections, concerns began to surface about interest rates, economic growth and other issues, that just a few weeks earlier were not considered critical problems for the markets overall. The stock market has had sharp corrections in the past that were not followed by economic recessions. At this juncture, we believe that this correction is not likely to usher in a recession in the next twelve months. As such, while there are many reasons to be cautious going forward, we see no major signs of a sharp decline in the U.S. markets or economic growth in 2019.

In our last quarterly review, we argued that volatility should return to the markets in the future. The primary reason for this expectation was a **secular** reversal in the direction of U.S. interest rates. Thus, volatility should increase as the Federal Reserve initiated rate hikes in order to return interest rates to more normalized levels over the coming year.

As such, with a stiff headwind of rising interest rates, we are not surprised at the dramatic increase in market volatility in the last few months. Together with the increased pressure from quantitative trading programs and the use of ETFs (Exchange Traded Funds), the market was primed for a jump in volatility. Irrespective of the increase in volatility, we believe the economy is in good shape and valuations for equities now appear attractive. Thus, barring a surprise recession, we expect a 5-10% rise in the U.S. equity markets in 2019.

THE FOURTH QUARTER STOCK MARKET CORRECTION IN PERSPECTIVE

Corrections usually occur when accumulated concerns overwhelm the current positives. We believe the correction reflected the following:

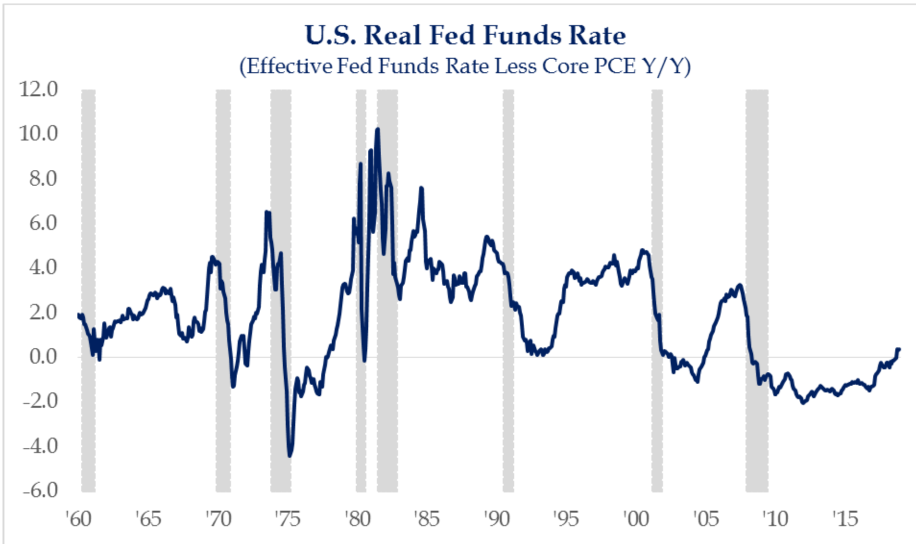
- Recent Federal Reserve comments on interest rates suggested a more hawkish trend for 2019 than the market was anticipating.
- Economic data coming out of Europe suggested a substantial slowdown in future growth in the European Union.
- The trade war rhetoric with China continued to escalate.
- Corporate profit growth for 2019 was reduced due in part to the aforementioned points. While most strategists were calling for >10% earnings growth in 2019, these forecasts have been scaled back to 7-8% currently.
- The Democrats took over the majority of the House of Representative seats in Congress in November. This suggested the likelihood of a more difficult path for legislation in general for the next two years.

Overall, these factors outweighed the expectations of continued growth in GDP, jobs and corporate profits in 2019. Remarkably, with low unemployment and rising corporate wages, market fear increased substantially to a point indicating a recession could emerge this year. The cause cited generally focused on the possibility of a Fed policy error in raising rates “too much.”

Currently, the real Fed fund rate is close to zero when adjusted for the growth in personal consumption expenditures.

t: 516.439.5100 f:516.439.5102
111 Great Neck Road, Suite 310, Great Neck, NY 11021
t: 800.259.1331 t: 615.620.3900 f: 615.620.3920
112 Westwood Place, Suite 210, Brentwood, TN 37027
www.kingspointcap.com

CHART II



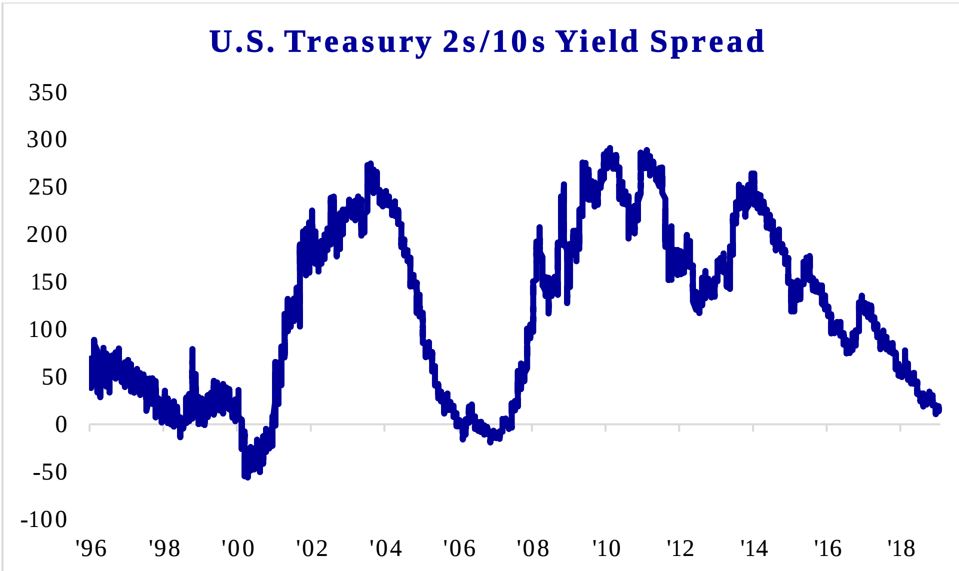
Source: Strategas

As Chart II suggests, the U.S. economy does not go into a recession historically until the real Fed Funds rate exceeds 2%. If this correlation continues to hold true, we have a fair amount of time before the next recession arrives.

THE ECONOMIC OUTLOOK FOR 2019 AND BEYOND

Trying to forecast the economy is a "no win" situation. Most experts (economists) generally get it wrong and need to make significant adjustments during the year. Indeed, 2018 was no exception as interest rates on the 10-year government bond failed to reach the average expectation of 3.25-3.50% by year-end 2018. In reality, the 10-year Treasury bond ended 2018 at 2.7%. This occurred despite the Fed hiking four times in 2018 and flattening the 2 to 10-year Treasury curve from 50 bps to 19 bps over the year (Chart III). Many analysts are discounting the Fed's guidance for 2-3 hikes this year and expect bond yields to mostly trade sideways. As such, we will continue to keep duration short and take advantage of volatility as it arises.

CHART III



Source: Strategas

We saw some minor inversion on the 2 to 5-year part of the curve in December. While inversion is often a sign of impending recession, we think this instance is simply the market starting to price in a possible rate cut by 2020.

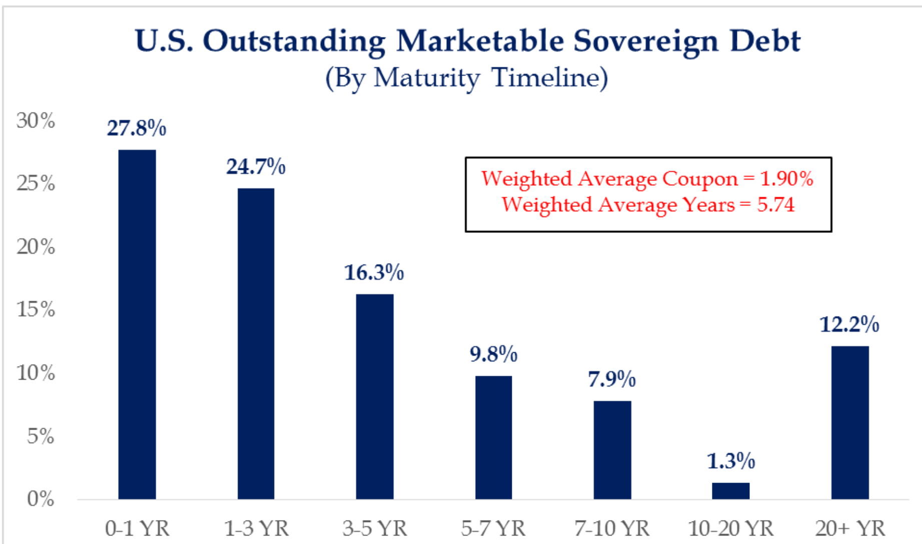
While Fed talk has tried to calm the bond market, balance sheet unwinding, further possible rate hikes, impending Brexit action and the end of global quantitative easing have created some headwinds for the market. However, a trade deal with China and/or economic growth in Europe could provide a better entry point for fixed income in the future.

Currently, the U.S. economy is in pretty good shape. Inflation is benign, interest rates are weaker than thought, corporate profit growth is modest to moderate and employment gains remain impressive. While many of these trends will change from current expectations as the year progresses, it would have to be rather dramatic to see a full-out recession develop in the latter half of 2019. Many would like to point out that we are in the tenth year of economic expansion. This is pretty long in the tooth by most measures. However, the U.S. economy has **never** had the degree of quantitative easing that occurred in recent years. Thus, we believe it is difficult to draw any conclusions about how the economy will react to quantitative tightening.

At this juncture, the typical economic forecast assumes 2-3% GDP growth, a 3.25% 10-year Treasury bond, 5-10% rise in corporate profits and very low inflation.

THE U.S. DEBT BUBBLE

CHART IV



Source: Strategas

The only real publicly traded competition for equities would be bonds. Interestingly, some 50% of U.S. government debt is coming due in the next three years (Chart IV).

If interest rates move higher, it may be due to the need for the U.S. government to refund the debt with either short or long-term bonds. Other than a sharp rise in U.S. and global GDP, this action may ultimately push rates up. We plan to keep an eye on this since rising interest rates would be a strong headwind for the equity market. However, we do not expect this as a significant factor anytime soon.

Currently, the stock market looks fairly attractive on a valuation basis. With the big market correction of 16% or so in the fourth quarter of 2018, the market's current valuation of about 15x EPS looks attractive. The next big move in the market (up or down) should come after quarterly earnings are reported in February and March. As corporate America gives guidance expectations for the full year, the market is likely to react to these expectations. We think the majority of companies should generate moderately positive growth in earnings in 2019.

We are biased to take a more positive stance this year. Political issues, trade talks and the global economy can create major swings in equity prices. Nevertheless, we believe valuations are attractive in a backdrop of rising corporate profitability.

KPCM

We are happy to announce three promotions of staff at year-end 2018. Jake Marshall has been invited to join the Partnership of the firm. He has been a strong contributor to our growth in the last few years. Jason Beaird has been promoted to the title of Director. Billy Dutton, one of our original employees when we founded the firm 11 years ago, has been promoted to Office Manager. We congratulate them on their outstanding contribution to our clients and the firm.

As always, please contact our offices if you have any questions.

Jack L. Salzman
Senior Managing Partner

Jeffrey P. Bates
Managing Partner

John A. Marshall, IV CFA, CFP®
Partner

Jason D. Beaird, CFA
Director

QUARTERLY LETTER DISCLOSURE

The information in this letter has been developed internally and/or obtained from sources which Kings Point Capital Management LLC ("Kings Point") believes to be reliable; however, Kings Point does not guarantee the accuracy, adequacy or completeness of such information nor does it guarantee the appropriateness of any investment approach or security referred to for any particular investor. Kings Point, its affiliates and/or its clients may have an investment position in a security or strategy (or related or opposing security or strategy) discussed in this letter and may change that position without notice at any time. This material is provided for informational purposes only and is not advice or a recommendation for the purchase or sale of any security.

This letter includes commentary by Kings Point. This information reflects subjective judgments and assumptions, and unexpected events may occur. Therefore, there can be no assurance that developments will transpire as forecasted. This material reflects the opinion of Kings Point on the date made and is subject to change at any time without notice. Kings Point has no obligation to update this material. Kings Point does not suggest that the strategy described herein is applicable to every client of or portfolio managed by Kings Point. In preparing this material, Kings Point has not taken into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision, you should consider consulting a professional advisor and whether the information provided in this material is appropriate in light of your particular investment needs, objectives and financial circumstances. Transactions in securities give rise to substantial risk and are not suitable for all investors.

The strategies described represent Kings Point's current intentions. These are only general guidelines that Kings Point expects will be approximate over time, but portfolios that it manages may not meet any of these characteristics. Kings Point may pursue any objectives, employ any techniques or purchase any type of financial investment that it considers appropriate and in a client's best interests.

No part of this material may be copied in any form, by any means, or redistributed, published, circulated or commercially exploited in any manner without Kings Point's prior written consent.

It should not be assumed that investments made in the future will be profitable or will equal the performance of investments discussed in this letter. On request, Kings Point will provide to you a list of all of the investments made by it in the last year.

06144\001\4129366.v1

t: 516.439.5100 f:516.439.5102
111 Great Neck Road, Suite 310, Great Neck, NY 11021
t: 800.259.1331 t: 615.620.3900 f: 615.620.3920
112 Westwood Place, Suite 210, Brentwood, TN 37027
www.kingspointcap.com