



STEARNS
FINANCIAL GROUP

2019 MARKET OUTLOOK

Sailing in Uncharted Waters

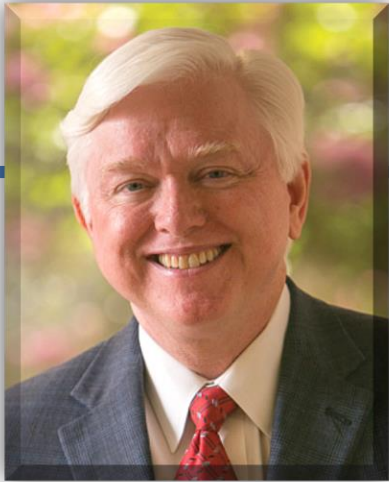
presented by:

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RTP Chapter
January 12, 2019

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- Dennis Stearns is a **financial planning practitioner and President of Stearns Financial Group (SFG)**, a fee-only financial planning and investment management firm with offices in Chapel Hill and Greensboro and clients around the U.S. and overseas.
- **Dennis has been called “one of the leading scenario experts and futurists in the financial planning industry” by the Financial Planning Association.** He has been named Triad Entrepreneur of the Year (2008) and SFG has been included as a multi-year Inc. 5000 list member. Dennis was among those chosen as **“Most Admired CEOs”** by the Triad *Business Journal* in 2016.
- He is a **TEDx speaker on The Changing Future of Jobs.**
- Dennis is **Treasurer and a board member of Gateway University Research Park**, home of the JSNN nano-center.
- He is a **partner in a Technology Business Accelerator** and is an advisory board member for the **Greensboro Chamber’s “Launch” Entrepreneur program.**
- Dennis is a former **chess expert** and was a **member of one of the winningest Pan American Chess Teams in U.S. history.** He coaches an inner city chess club and often plays up to 35 people at the same time to raise money for children’s charities.

Agenda

1. Why Uncharted Waters?
2. U.S. and World economic health
3. Diversification Woes in 2018
4. Investing Strategies
5. Financial Planning Strategies
6. Q&A

Volatility

Uncertainty

Complexity

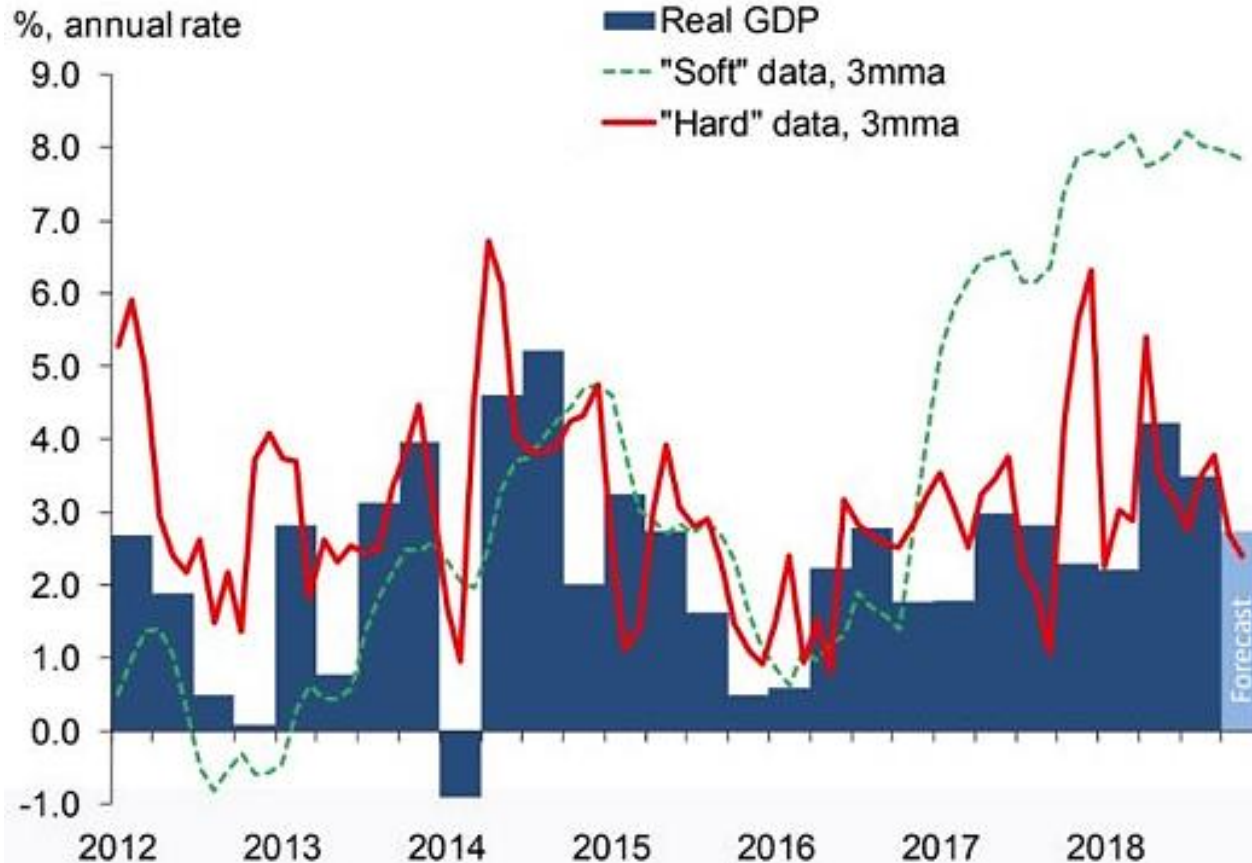
Ambiguity

Why Uncharted Waters?

1. Rising interest rates after a decade of ultra-low rates
2. Rise of protectionism plays havoc with global supply chains
3. New geo-political threats, including China
4. Massive disruption and dislocation creates unprecedented opportunities and threats
5. Social media and 24/7 news magnifies fear center of our brain

U.S. Economy Cooling

US: Economic Momentum Indicator



Source: Oxford Economics, Posted on *WSJ The Daily Shot*, 12.21.18 @SoberLook

Our Economic Momentum Indicator shows momentum continued to cool in Q4 as our preferred hard data real GDP growth proxy slipped to around 2.4% in November. The soft data indicator remains high, but also softened in the month. We see real GDP growth easing to around 2.7% in Q4.

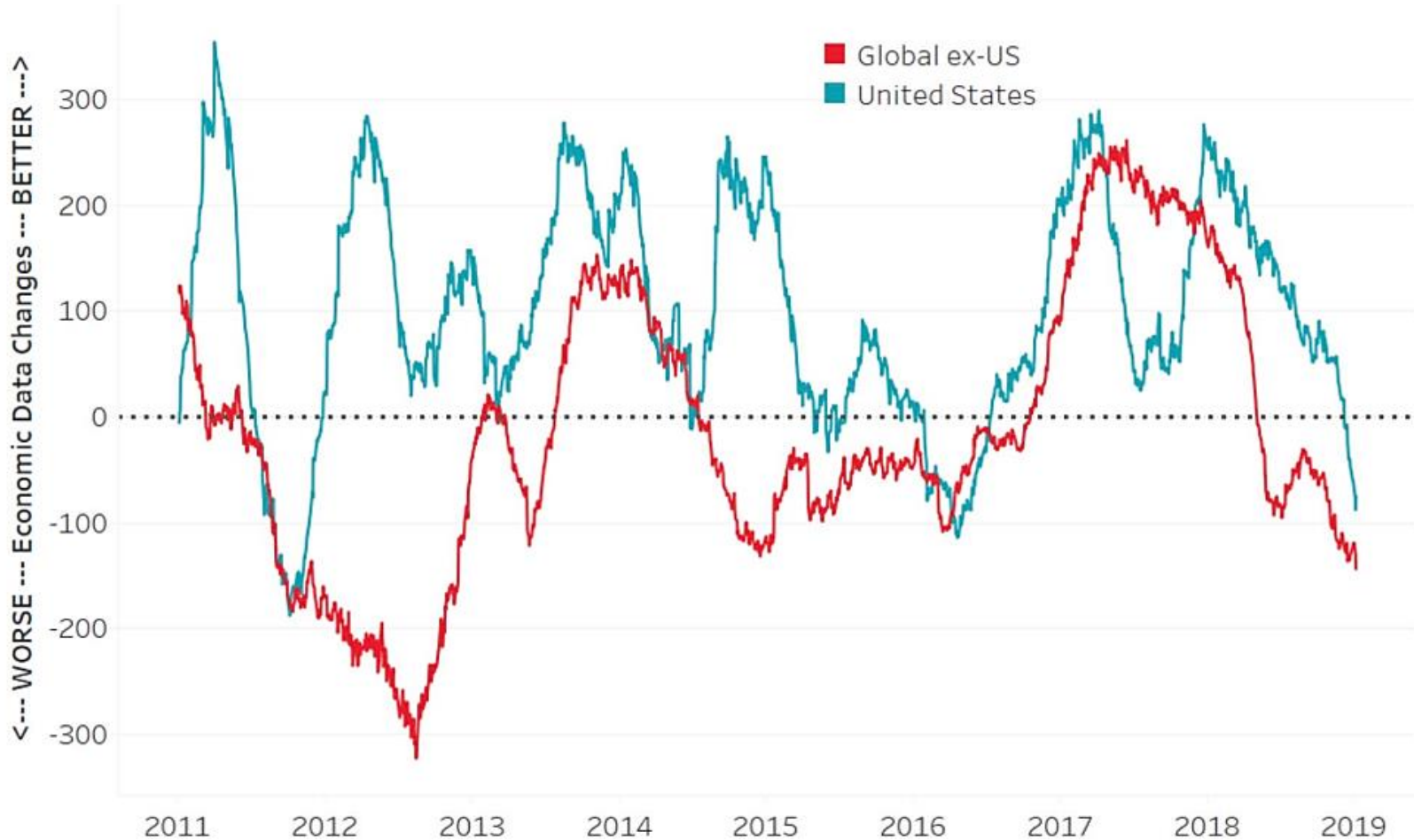
SFG cannot guarantee projections or that estimates will actually be met. Please see our disclosures at the end of this document.

Global Economic Trends

U.S. Economic Data Chasing Globe to Below-Average Growth

Citigroup Economic Data Change Indices

ARBOR DATA SCIENCE

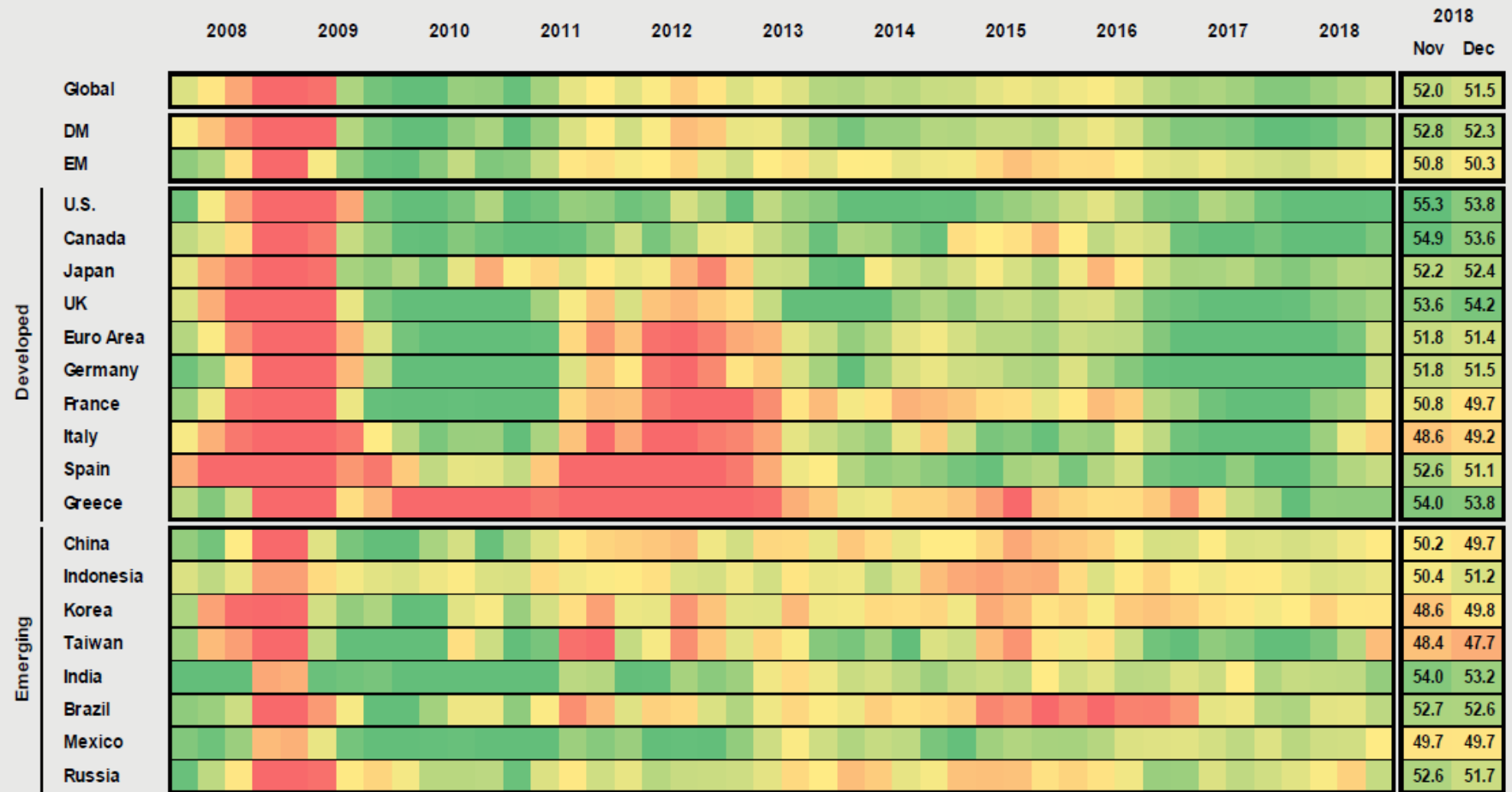


Data Sources: Bloomberg, LP © 2019 Arbor Research & Trading, LLC. All Rights Reserved

datascience.arborresearch.com

Global Manufacturing Trends

Global Purchasing Managers' Index for manufacturing, quarterly



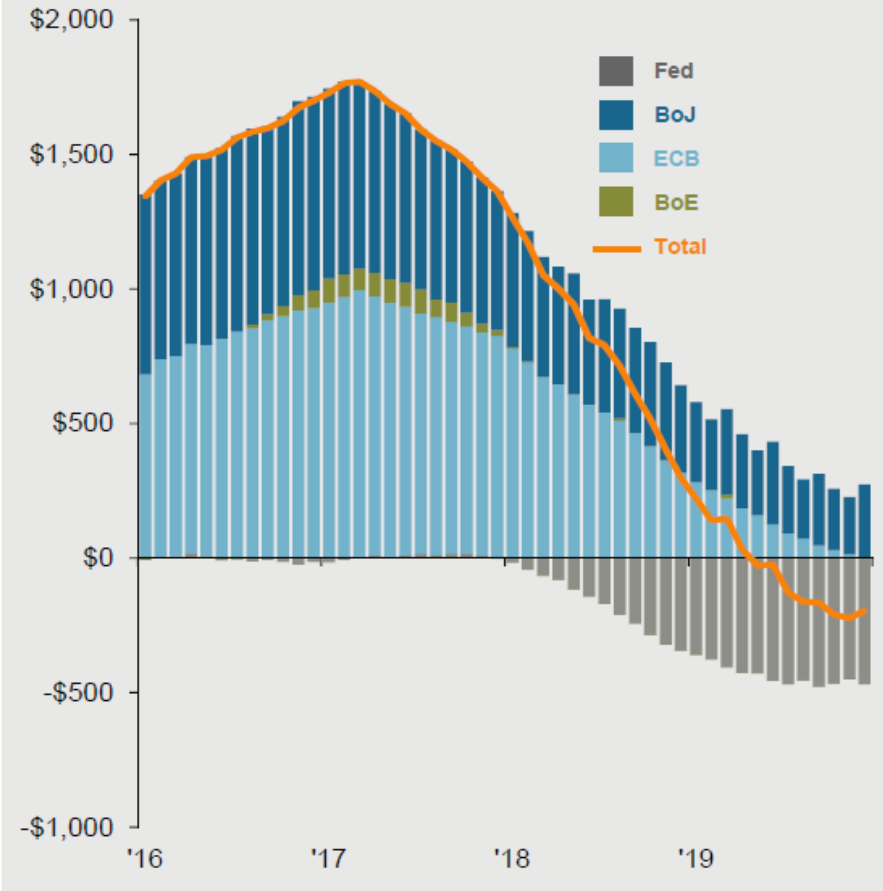
Source: Markit, J.P. Morgan Asset Management.

Heatmap colors are based on PMI relative to the 50 level, which indicates acceleration or deceleration of the sector, for the time period shown. Heat map is based on quarterly averages, with the exception of the two most recent figures, which are single month readings. Data for Canada, Indonesia and Mexico are back-tested and filled in from December 2007 to November 2010 for Canada and May 2011 for Indonesia and Mexico due to lack of existing PMI figures for these countries. DM and EM represent developed markets and emerging markets, respectively. Guide to the Markets – U.S. Data are as of December 31, 2018.

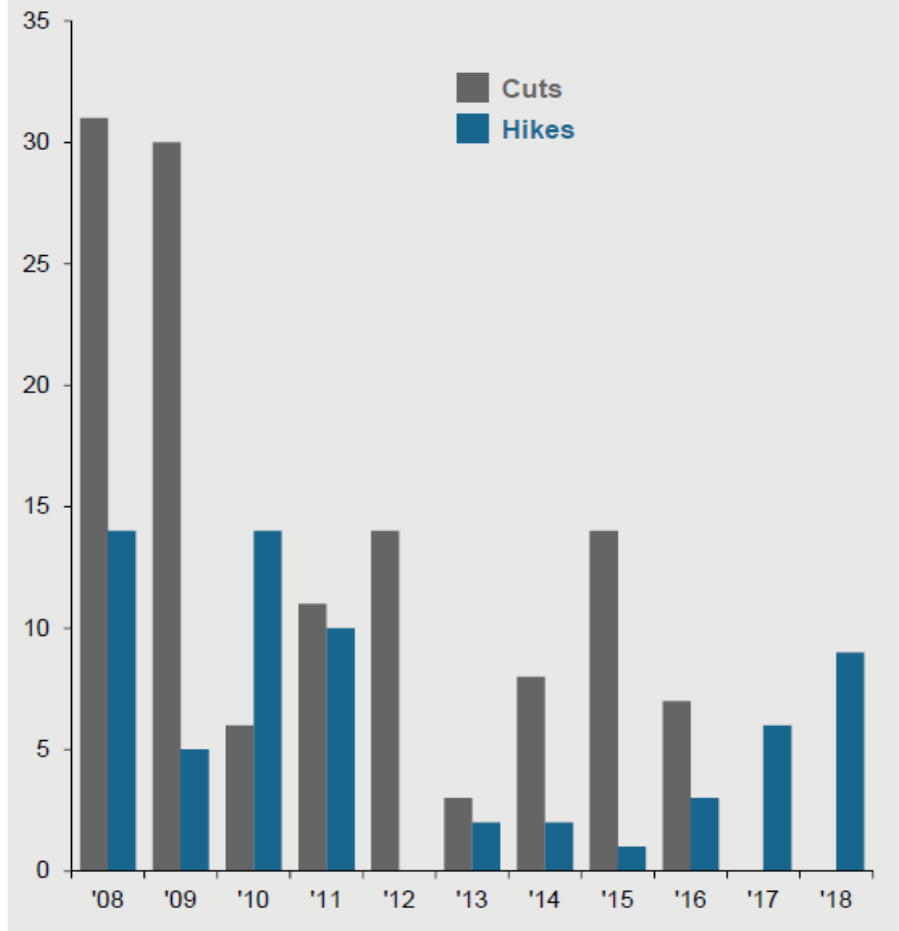
Global Monetary Policy

Global central bank balance sheet expansion*

USD billions, 12-month rolling flow

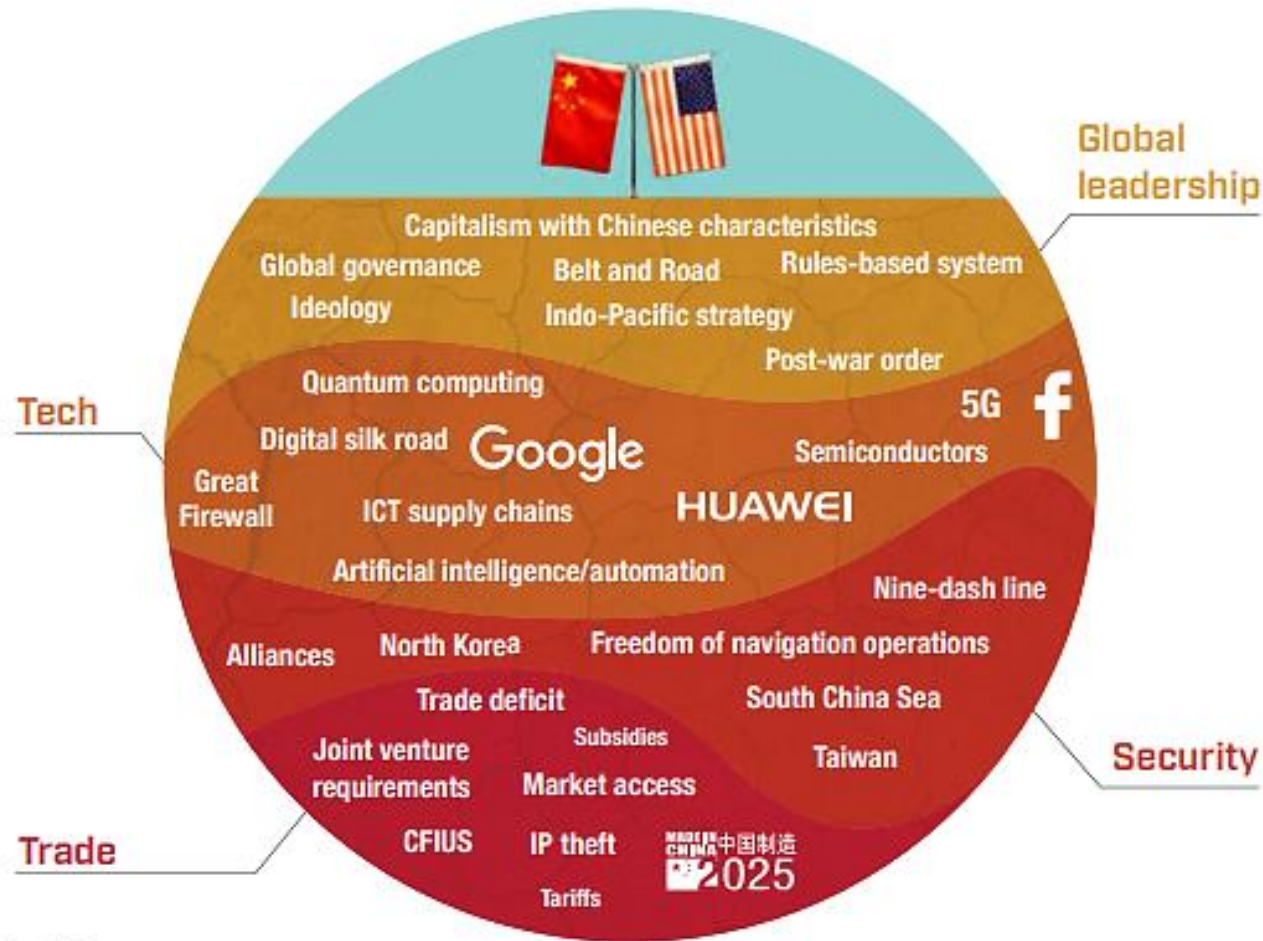


Number of rate changes by top-10 DM central banks**



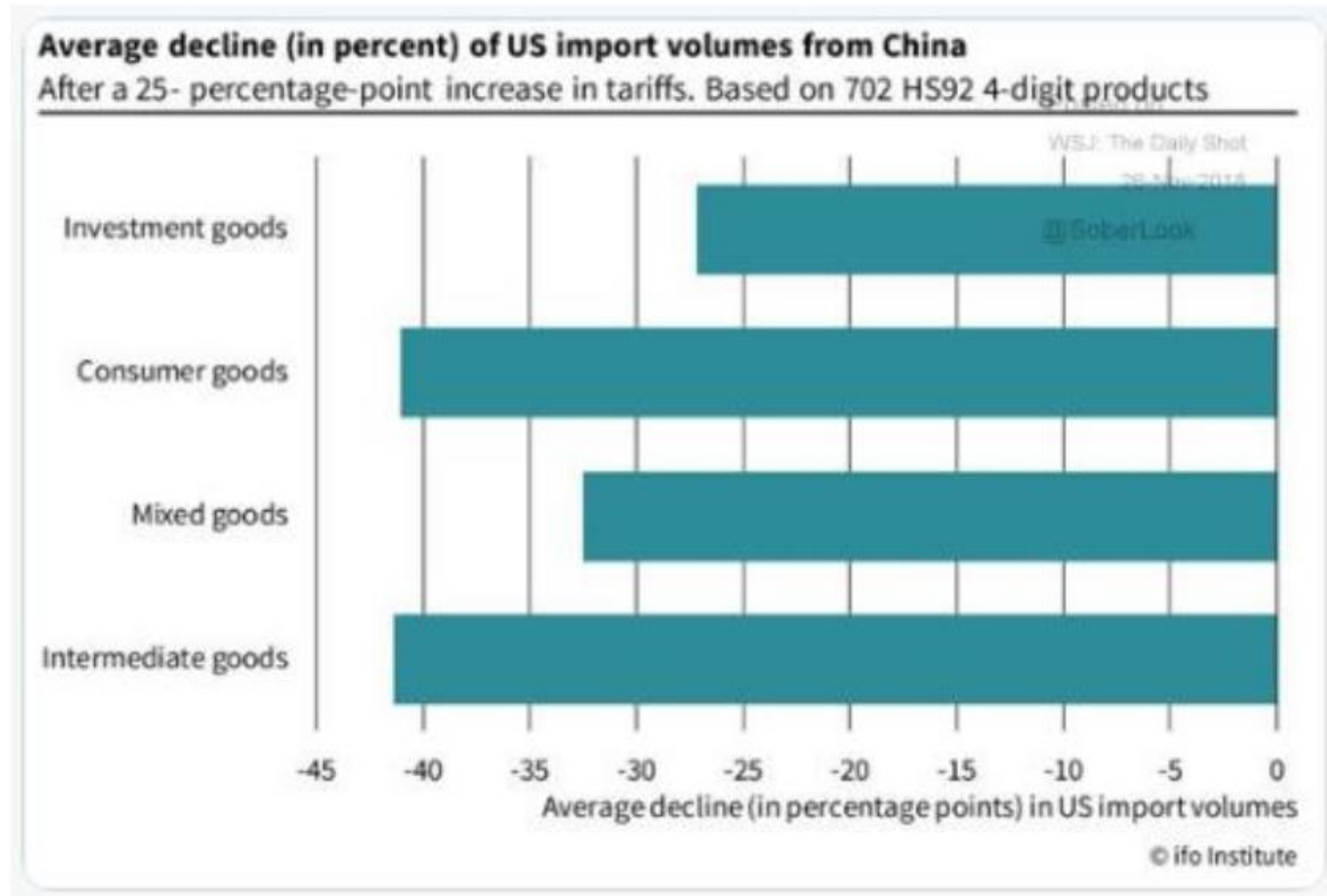
Source: J.P. Morgan Asset Management; (Left) Bank of England, Bank of Japan, European Central Bank, FactSet, Federal Reserve System, J.P. Morgan Global Economic Research; (Right) Bloomberg. *Includes the Bank of Japan (BoJ), Bank of England (BoE), European Central Bank (ECB) and Federal Reserve. Balance sheet expansion assumes no more quantitative easing (QE) from BoE; tapering of ECB from 30bn to 15bn EUR in October 2018 and 0 in January 2019; tapering of BoJ QE to 20trn JPY ann. for the remainder of 2018 and 2019; and tapering of Fed QE per the September 2017 FOMC statement, incorporating a maturity schedule. **Including: Australia, Canada, Denmark, Eurozone, Japan, Norway, Sweden, Switzerland, UK and U.S. Guide to the Markets – U.S. Data are as of December 31, 2018.

The Many Layers of U.S.-China Tensions



Source: Eurasia Group

Impact of Tariffs



Source: *WSJ The Daily Shot* @SoberLook, 11.26.18

U.S.-China Trade Tensions

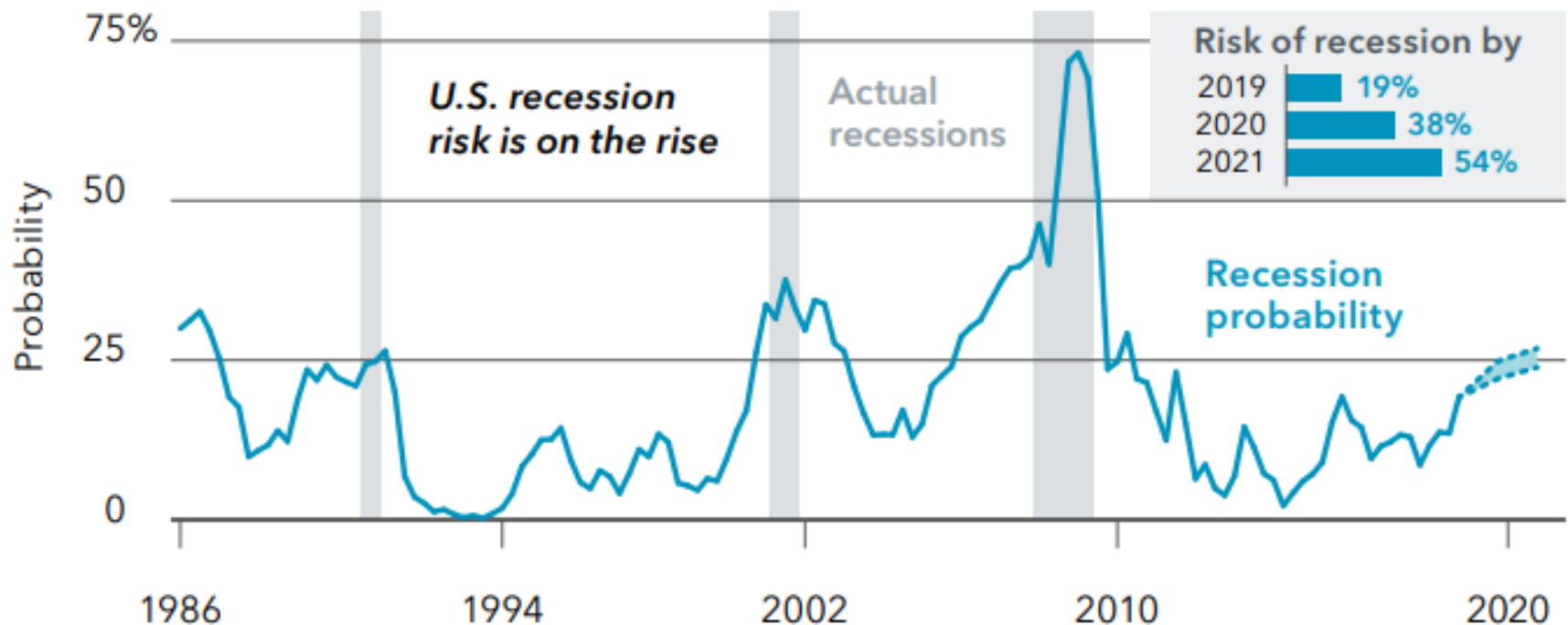


Source: Pantheon Macroeconomics, Posted on *WSJ The Daily Shot* @SoberLook, 01.02.19

Recession Watch

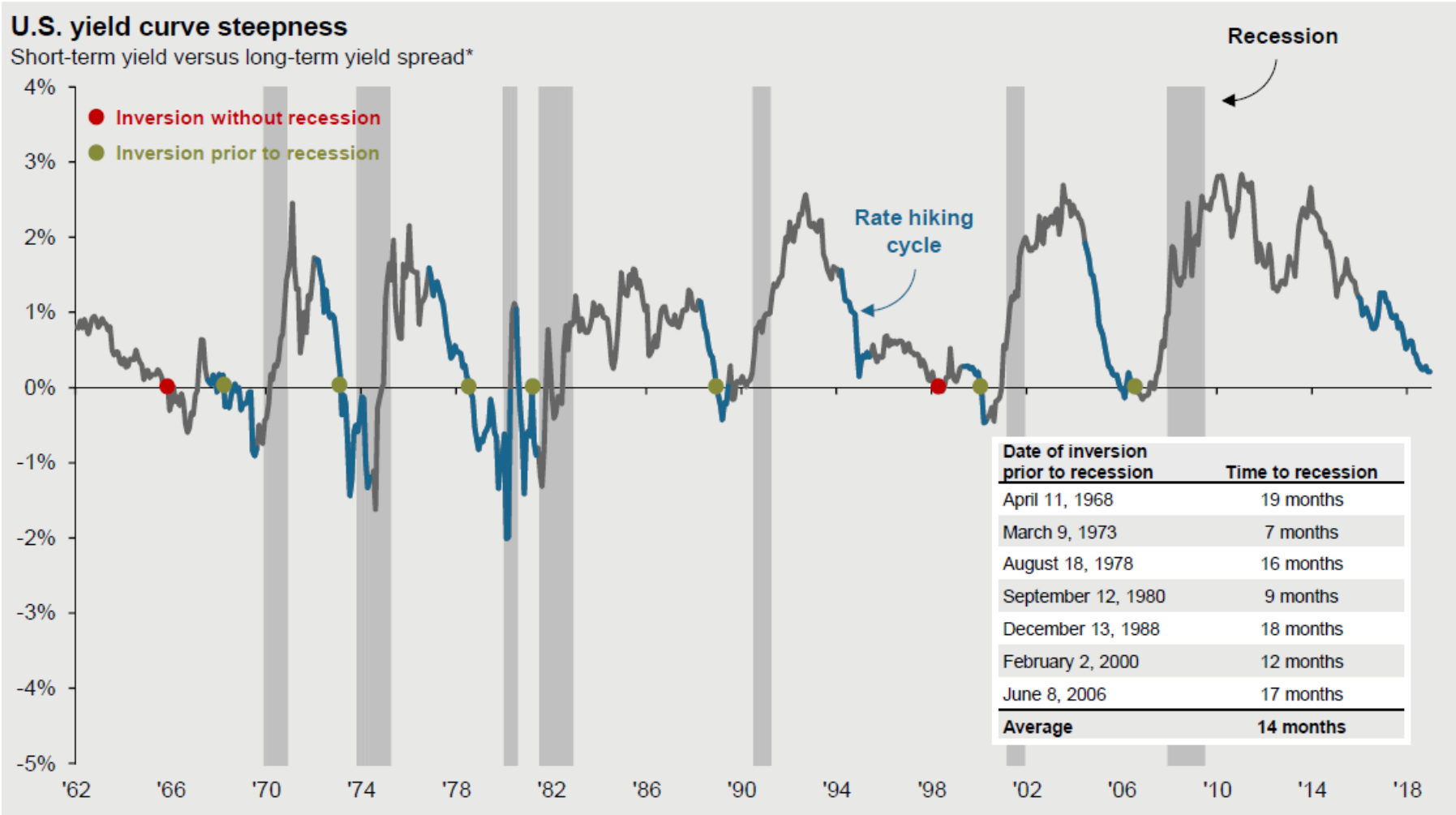
Recession watch

BlackRock estimate of forward-looking U.S. recession probability, 1986-2021



Sources (Top Chart): BlackRock Investment Institute, with data from Thomson Reuters, November 2018. Notes: The chart shows the estimated four-quarter-ahead probability of a U.S. recession. Actual U.S. recessions as defined by the U.S. National Bureau of Economic Research are denoted by the shaded areas. The estimation is done via a series of quantile regressions that estimate the probability that growth will be below a certain threshold. The 2019 and 2020 probabilities (shaded blue) are based on a range of likely outcomes of financial conditions, financial vulnerabilities and growth. The inset chart shows the cumulative probability of being in a recession by the end of each noted year. Forward-looking estimates may not come to pass.

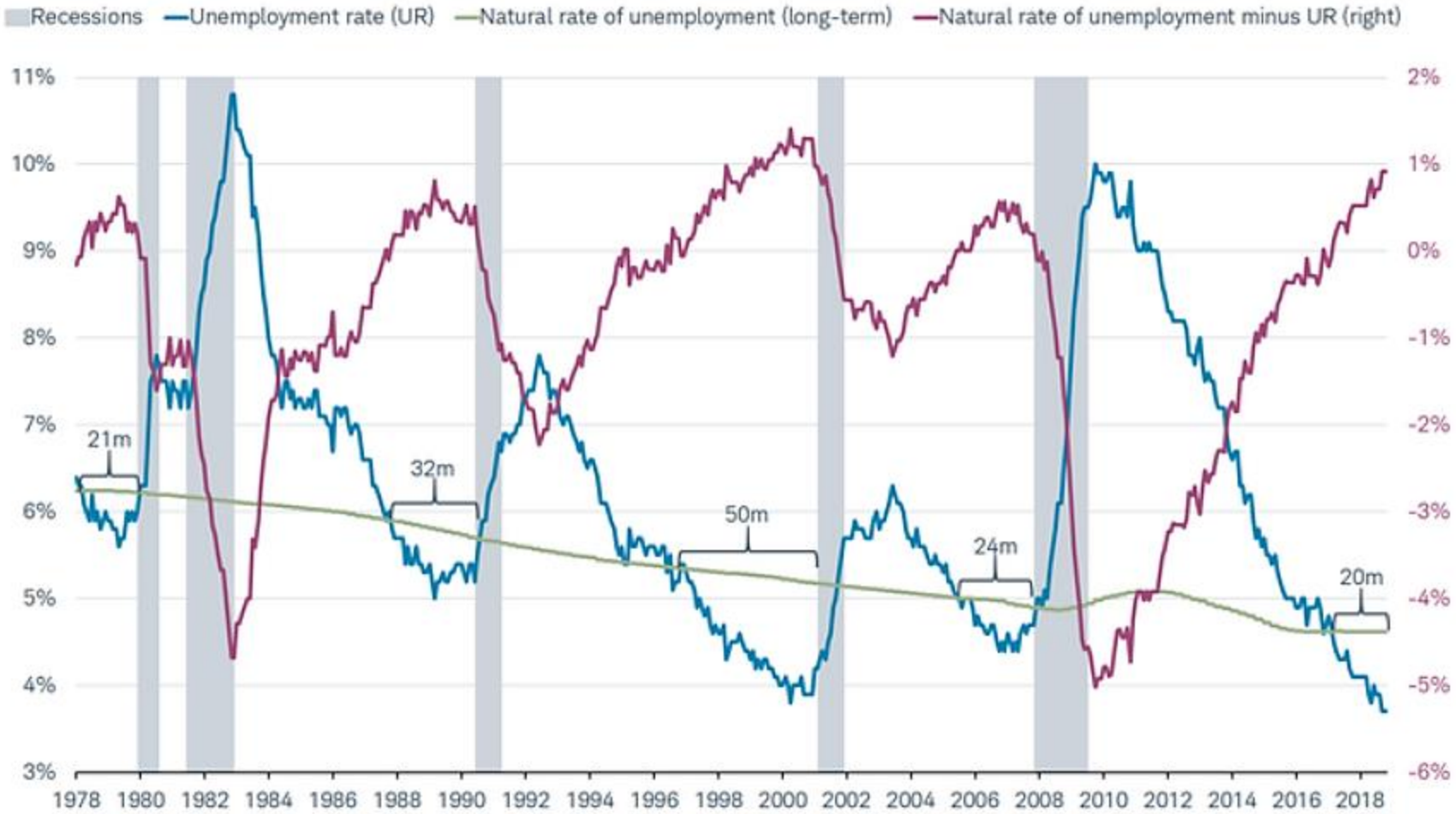
U.S. Yield Curve Inversion And Recessions



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management. *From January 1962 to May 1976 short-term bond is U.S. 1-year bond. Short-dated bond is 2-year from June 1976. Time to recession is calculated as the time between the final sustained inversion of the yield curve prior to recession, and the onset of recession. Guide to the Markets – U.S. Data are as of December 31, 2018.

Historically Low Unemployment Implications

Unemployment Rate Well Below Natural Rate



Source: Charles Schwab, Department of Labor, FactSet, U.S. Congressional Budget Office, as of November 30, 2018.

Cash Was King in 2018

Cash Trumped All Major Asset Classes in 2018

Since 1990

Year	US Equities		US Bonds			Cash	US Credit		World Stocks		World Bonds		Commodities	
	Large Cap S&P 500	Small Cap RTY	30-Year Bond	10-Year Note	Barclays Agg	3-Month Bill	High Yield	Investment Grade	Emerging MSCI	Developed EAFE	Emerging JP EMBI+	Global Ex-US	CRB Index	Best
1990	-3.10%	-19.48%	4.39%	6.73%	8.96%	8.55%	-4.36%	7.37%	-13.76%	-24.71%			-2.58%	8.96%
1991	30.47%	46.04%	17.32%	17.21%	16.00%	6.41%	39.17%	18.24%	55.97%	10.19%			-4.98%	55.97%
1992	7.62%	18.41%	6.71%	6.60%	7.40%	3.80%	17.44%	9.12%	9.05%	-13.89%			-3.60%	18.41%
1993	10.08%	18.88%	20.01%	12.01%	9.75%	3.35%	16.69%	12.43%	71.26%	30.49%			10.41%	71.26%
1994	1.32%	-1.82%	-11.99%	-7.89%	-2.92%	4.48%	-1.06%	-3.36%	-8.67%	6.24%	-18.35%		3.42%	6.24%
1995	37.58%	28.45%	34.14%	24.97%	18.47%	6.05%	20.44%	21.53%	-6.95%	9.42%	26.38%		5.36%	37.58%
1996	22.96%	16.49%	-4.32%	0.22%	3.63%	5.49%	11.32%	3.43%	3.91%	4.40%	35.24%		-0.62%	35.24%
1997	33.36%	22.36%	15.03%	11.18%	9.65%	5.43%	13.27%	10.39%	-13.41%	0.24%	11.95%	7.22%	-3.41%	33.36%
1998	28.58%	-2.55%	17.06%	12.58%	8.69%	5.36%	2.95%	8.72%	-27.52%	18.23%	-11.55%	6.42%	-18.38%	28.58%
1999	21.04%	21.26%	-14.78%	-8.36%	-0.82%	4.72%	2.51%	-1.89%	63.70%	25.27%	24.18%	2.05%	7.28%	63.70%
2000	-9.10%	-3.02%	20.22%	14.51%	11.63%	6.27%	-5.17%	9.09%	-31.80%	-15.21%	14.41%	5.85%	11.06%	20.22%
2001	-11.89%	2.49%	4.21%	4.51%	8.44%	4.42%	4.54%	10.74%	-4.91%	-22.61%	1.36%	6.59%	-16.34%	10.74%
2002	-22.10%	-20.48%	16.17%	15.80%	10.25%	1.69%	-1.89%	10.17%	-7.97%	-17.52%	13.11%	8.00%	23.04%	23.04%
2003	28.68%	47.25%	0.77%	1.38%	4.10%	1.05%	28.15%	8.31%	51.59%	35.28%	25.66%	5.12%	8.86%	51.59%
2004	10.88%	18.33%	8.86%	5.06%	4.34%	1.31%	10.87%	5.41%	22.45%	17.59%	11.73%	6.02%	11.21%	22.45%
2005	4.91%	4.55%	9.31%	2.75%	2.43%	3.02%	2.72%	1.96%	30.31%	10.86%	10.73%	4.16%	16.88%	30.31%
2006	15.79%	18.37%	-1.16%	1.67%	4.33%	4.87%	11.74%	4.36%	29.18%	23.47%	9.88%	1.67%	-7.40%	29.18%
2007	5.49%	-1.57%	10.71%	10.01%	6.97%	5.18%	2.24%	4.67%	36.48%	8.62%	6.28%	1.90%	16.74%	36.48%
2008	-37.00%	-33.79%	41.85%	22.21%	5.24%	2.51%	-26.39%	-6.82%	-54.48%	-45.09%	-10.91%	-4.00%	-36.01%	41.85%
2009	26.46%	27.17%	-25.91%	-10.46%	5.93%	0.32%	57.51%	19.76%	74.50%	27.75%	28.17%	14.89%	23.46%	74.50%
2010	15.06%	26.85%	9.15%	8.64%	6.54%	0.22%	15.19%	9.52%	16.36%	4.90%	12.04%	6.17%	17.44%	26.85%
2011	2.11%	-4.18%	35.31%	16.97%	7.84%	0.11%	4.38%	7.51%	-20.41%	-14.82%	8.46%	3.33%	-8.26%	35.31%
2012	16.00%	16.35%	2.69%	4.21%	4.22%	0.19%	15.59%	10.37%	15.15%	13.55%	18.54%	11.20%	-3.37%	18.54%
2013	32.39%	38.82%	-15.07%	-7.75%	-2.02%	0.15%	7.42%	-1.46%	-4.98%	19.43%	-6.58%	1.06%	-5.03%	38.82%
2014	13.69%	4.89%	29.57%	10.76%	5.97%	0.11%	2.50%	7.51%	-4.63%	-7.35%	5.53%	7.35%	-17.92%	29.57%
2015	1.38%	-4.41%	-3.72%	0.45%	0.55%	0.14%	-4.64%	-0.63%	-16.96%	-3.30%	1.23%	0.13%	-23.40%	1.38%
2016	11.96%	21.31%	1.06%	-0.17%	2.65%	0.36%	17.49%	5.96%	8.58%	-1.88%	10.19%	5.36%	9.29%	21.31%
2017	21.83%	14.65%	9.25%	2.14%	3.54%	0.92%	7.48%	6.48%	34.35%	21.78%	9.32%	4.39%	0.70%	34.35%
2018	-4.38%	-11.01%	-2.63%	0.00%	0.01%	1.86%	-2.26%	-2.25%	-16.64%	-16.14%	-4.61%	-1.25%	-12.41%	1.86%

Source: Bianco Research, L.L.C.

Past performance is not indicative of future results .

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Asset Class Returns

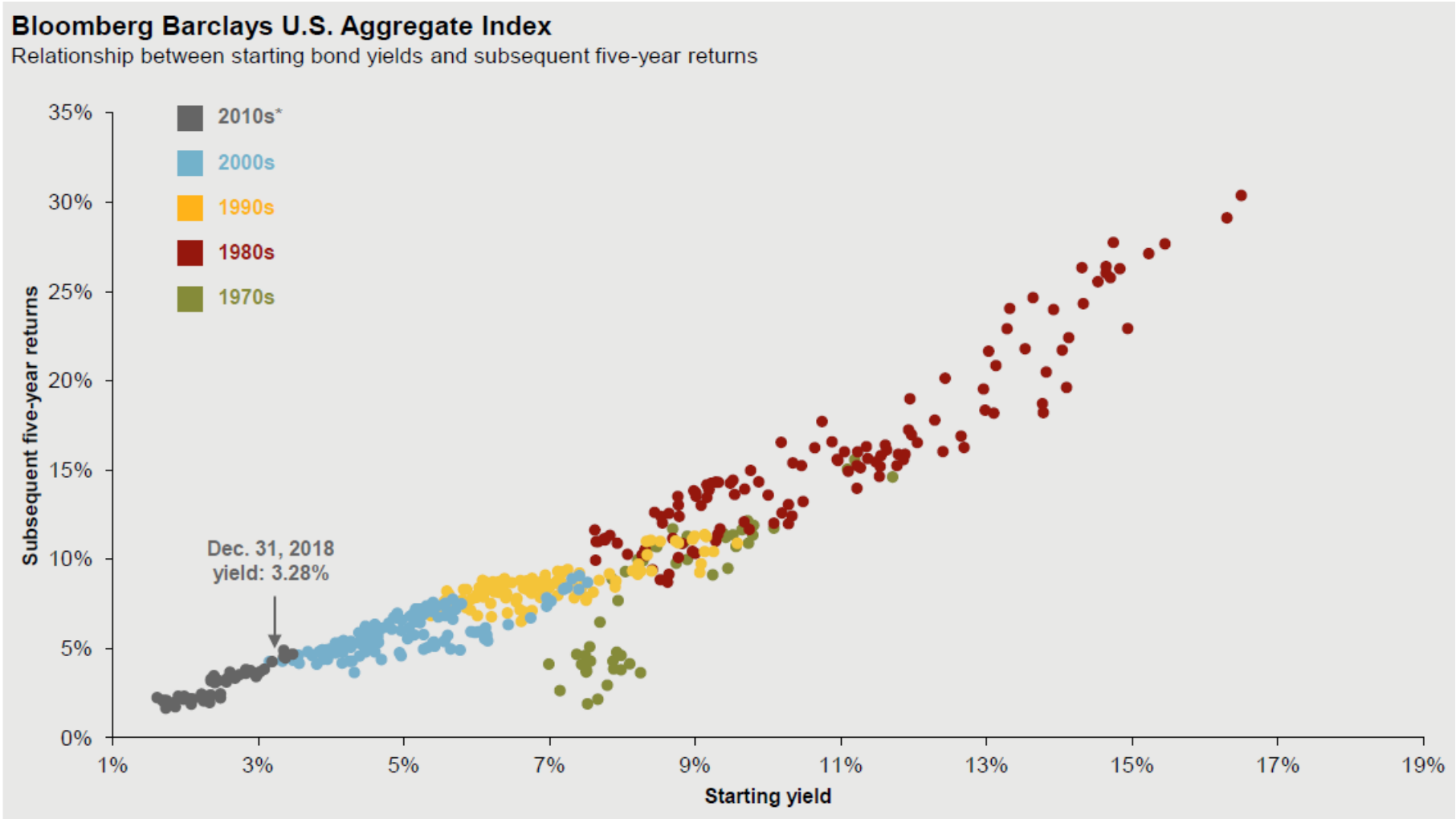
															2004 - 2018	
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Ann.	Vol.
REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	REITs 8.5%	REITs 22.4%
EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	EM Equity 8.3%	EM Equity 22.1%
DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Large Cap 7.8%	Small Cap 18.6%
Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	Small Cap 7.5%	Comdty. 18.6%
High Yield 13.2%	Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	High Yield 7.3%	DM Equity 17.6%
Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	Asset Alloc. 6.2%	Large Cap 14.5%
Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	DM Equity 5.2%	High Yield 11.0%
Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 3.9%	Asset Alloc. 10.3%
Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Cash 1.3%	Fixed Income 3.3%
Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Comdty. -2.5%	Cash 0.8%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.

Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/03 – 12/31/18. All data represents total return for stated period. Past performance is not indicative of future returns. Guide to the Markets – U.S. Data are as of December 31, 2018.

The volatility of the indexes could be materially different from that of a client's portfolio. The indexes do not reflect fees and expenses and are not available for direct investment.

Importance of Starting Bond Yields



Source: Bloomberg Barclays, FactSet, J.P. Morgan Asset Management. *2010s are from January 2010 to December 2013. R² for bond yields and subsequent five-year returns is 86%.

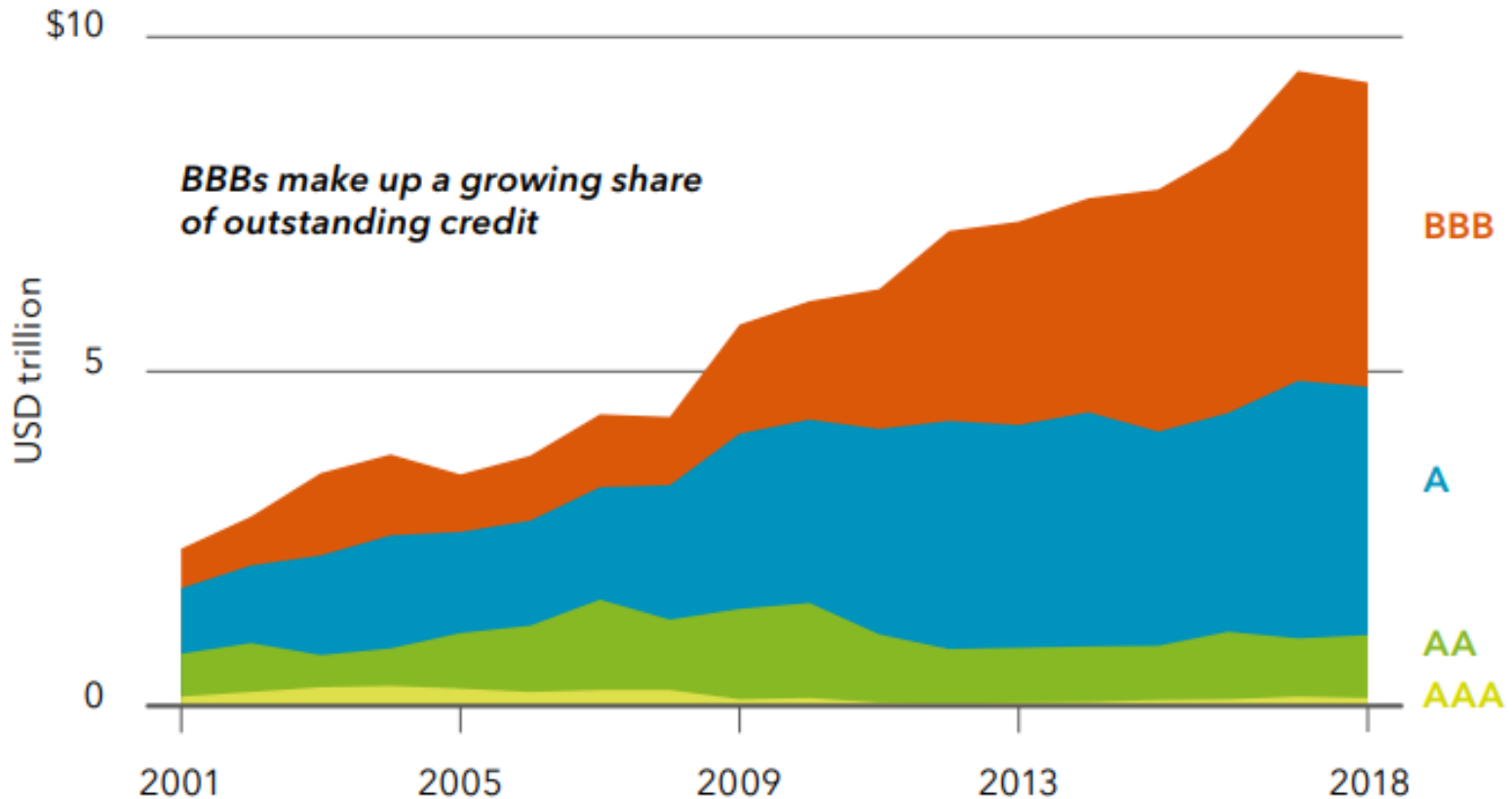
Past performance is not indicative of comparable future results.

Guide to the Markets – U.S. Data are as of December 31, 2018.

Corporate Bond Health

Fallen angels in the making?

Global investment grade corporate bond issuance by rating bands, 2001-2018

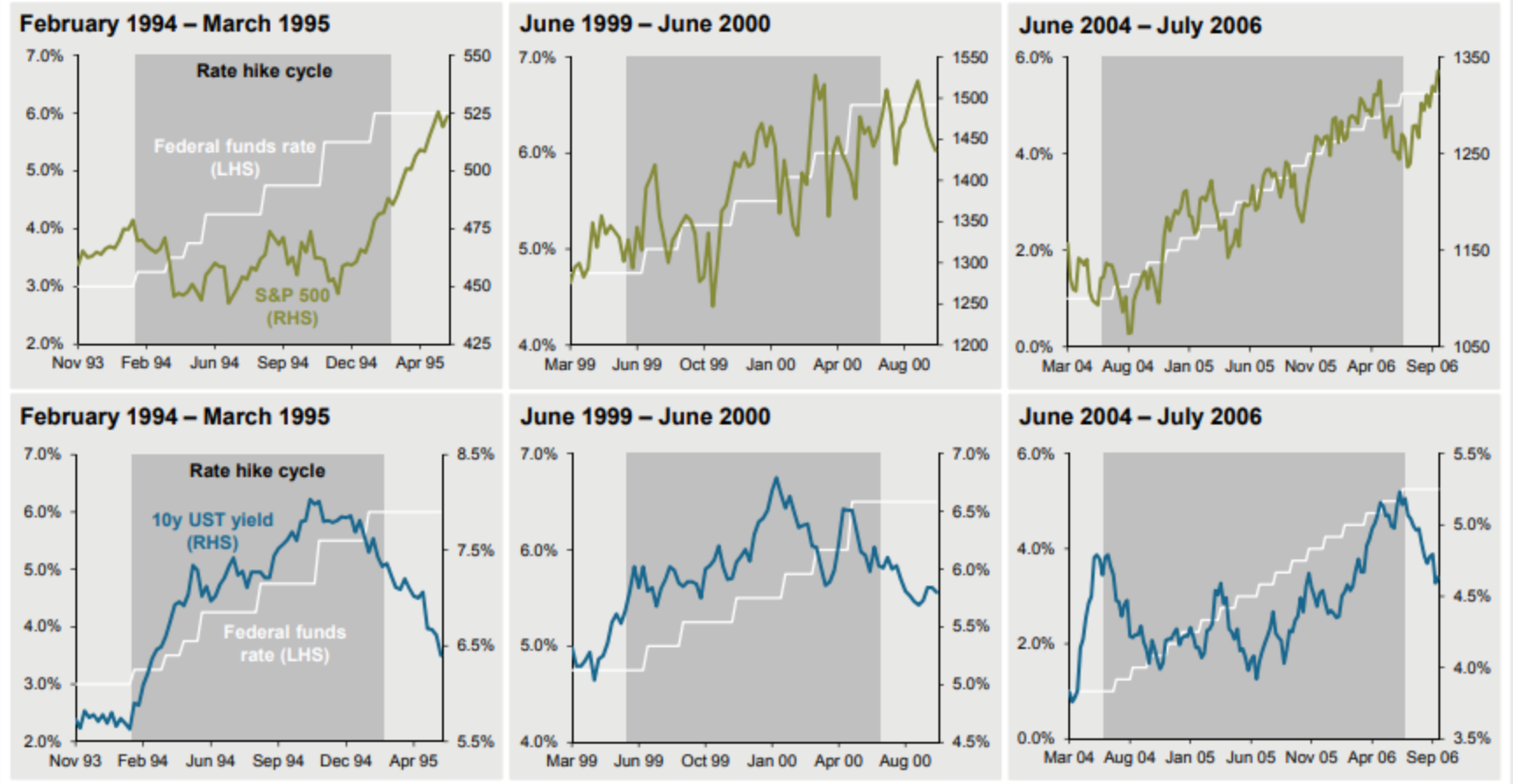


Sources: BlackRock Investment Institute, with data from Bloomberg, November 2018. Notes: The chart shows a breakdown of the Bloomberg Barclays Global Corporate Index based on market value by rating bands. The 2018 numbers are as of Oct. 31.

Stocks, Bonds and Fed Tightening

Returns and yield changes during rate hiking cycles

S&P 500 price index and 10-year U.S. Treasury yield over the last three rate hiking cycles



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Guide to the Markets – U.S. Data are as of December 31, 2018.

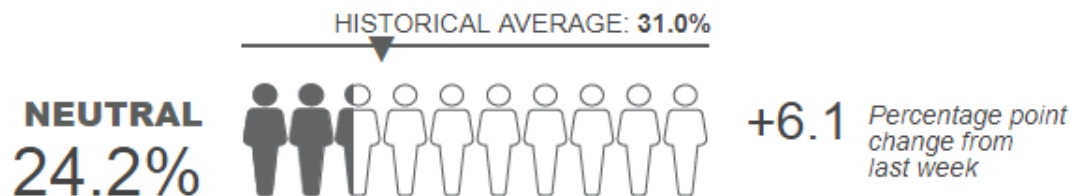
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AAII Investment Sentiment Survey

Survey Results for Week Ending 1/2/2019

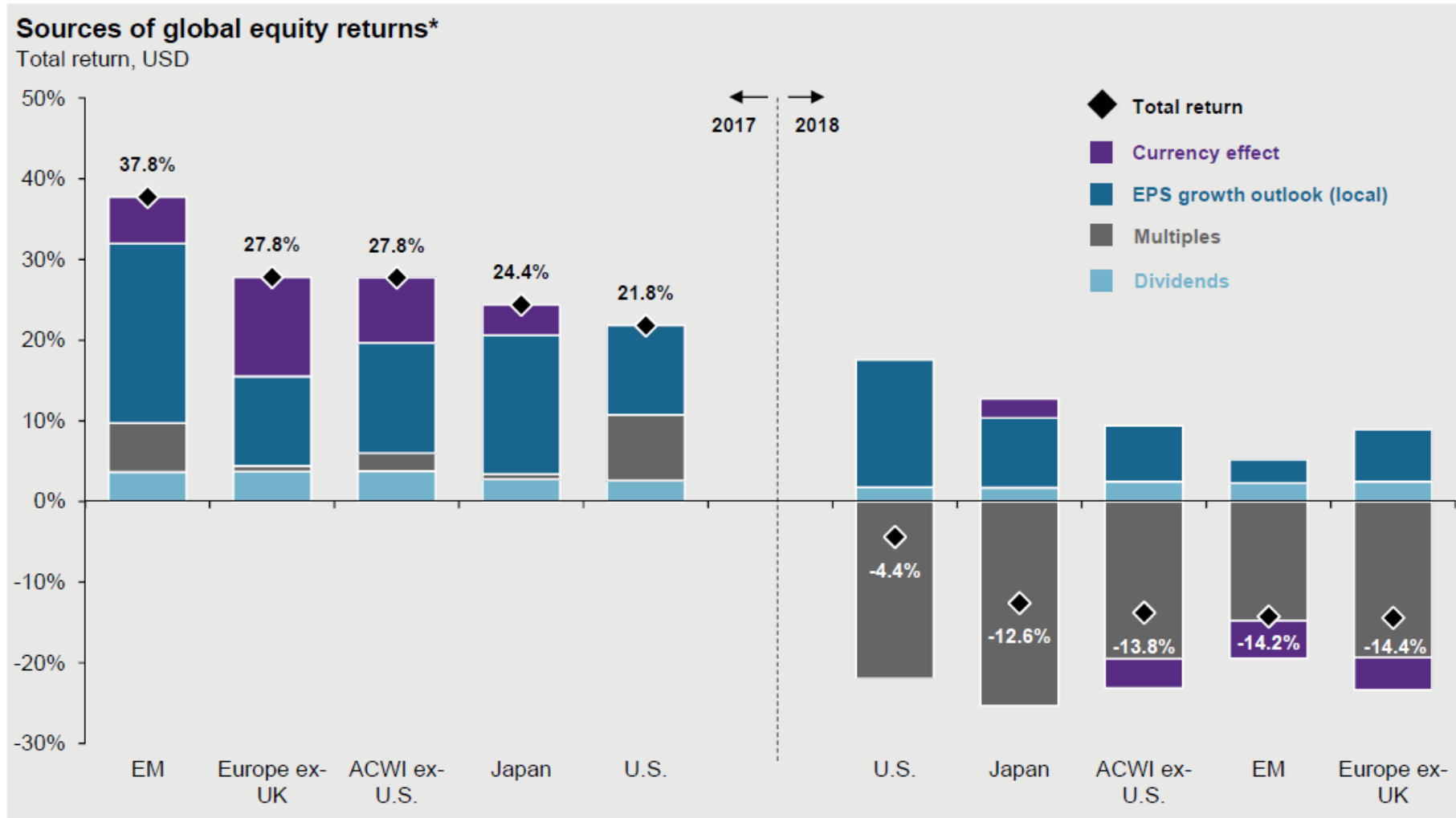
Data represents what direction members feel the stock market will be in next 6 months.



Note: Numbers may not add up to 100% because of rounding.

Source: www.aaii.com; The AAI Investor Sentiment Survey has become a widely followed measure of the mood of individual investors. The weekly survey results are published in financial publications including Barron's and Bloomberg and are widely followed by market strategists, investment newsletter writers and other financial professionals.

Global Stock Market Returns 2017 vs. 2018



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.

All return values are MSCI Gross Index (official) data, except the U.S., which is the S&P 500. *Multiple expansion is based on the forward P/E ratio and EPS growth outlook is based on NTMA earnings estimates. Chart is for illustrative purposes only. Past performance is not indicative of future results.

Guide to the Markets – U.S. Data are as of December 31, 2018.

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Expectations are Significantly Lower in 2019



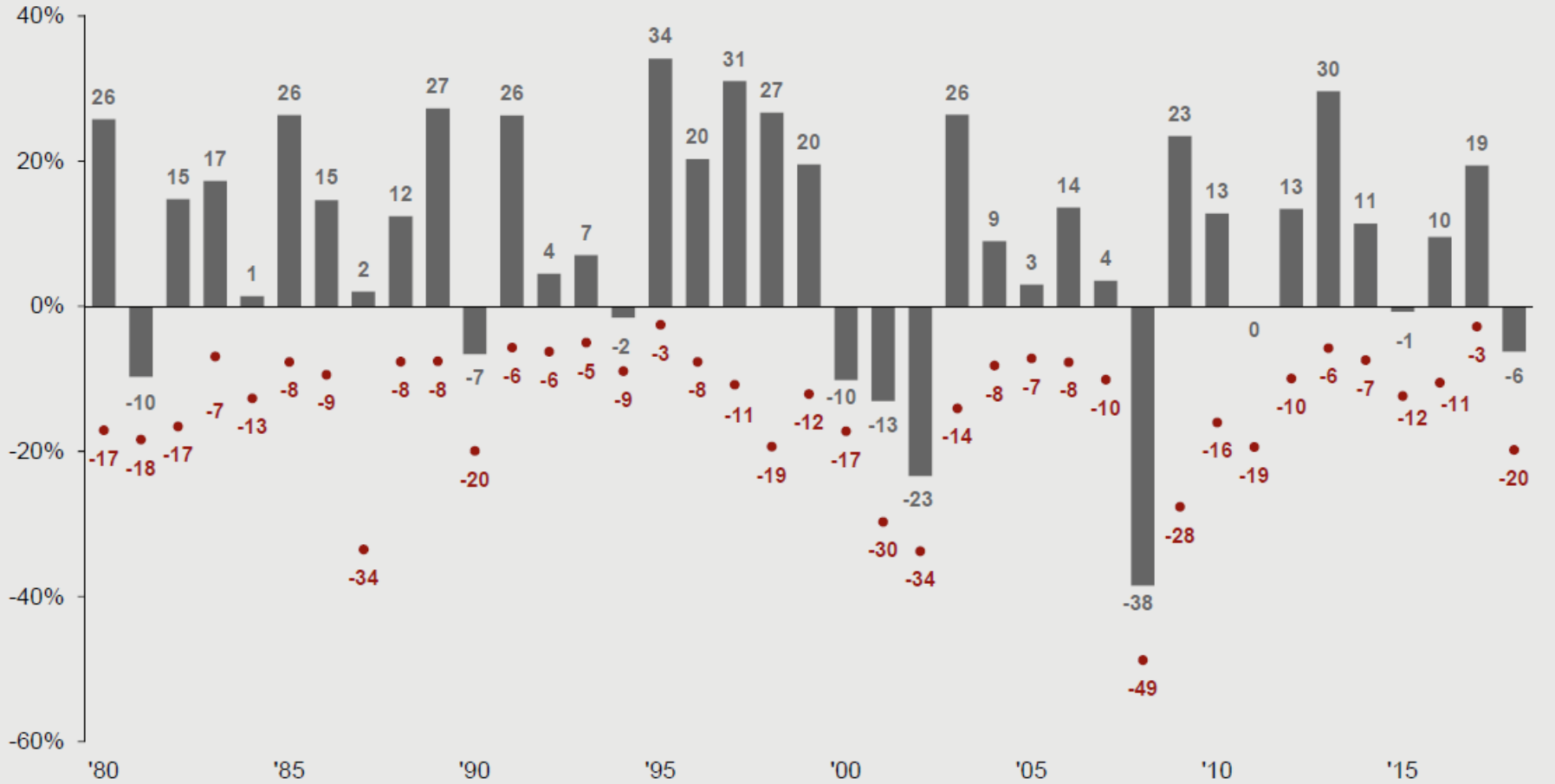
Source: Bloomberg, Bianco Research, L.L.C.

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S&P 500 Annual Returns and Intra-year Declines

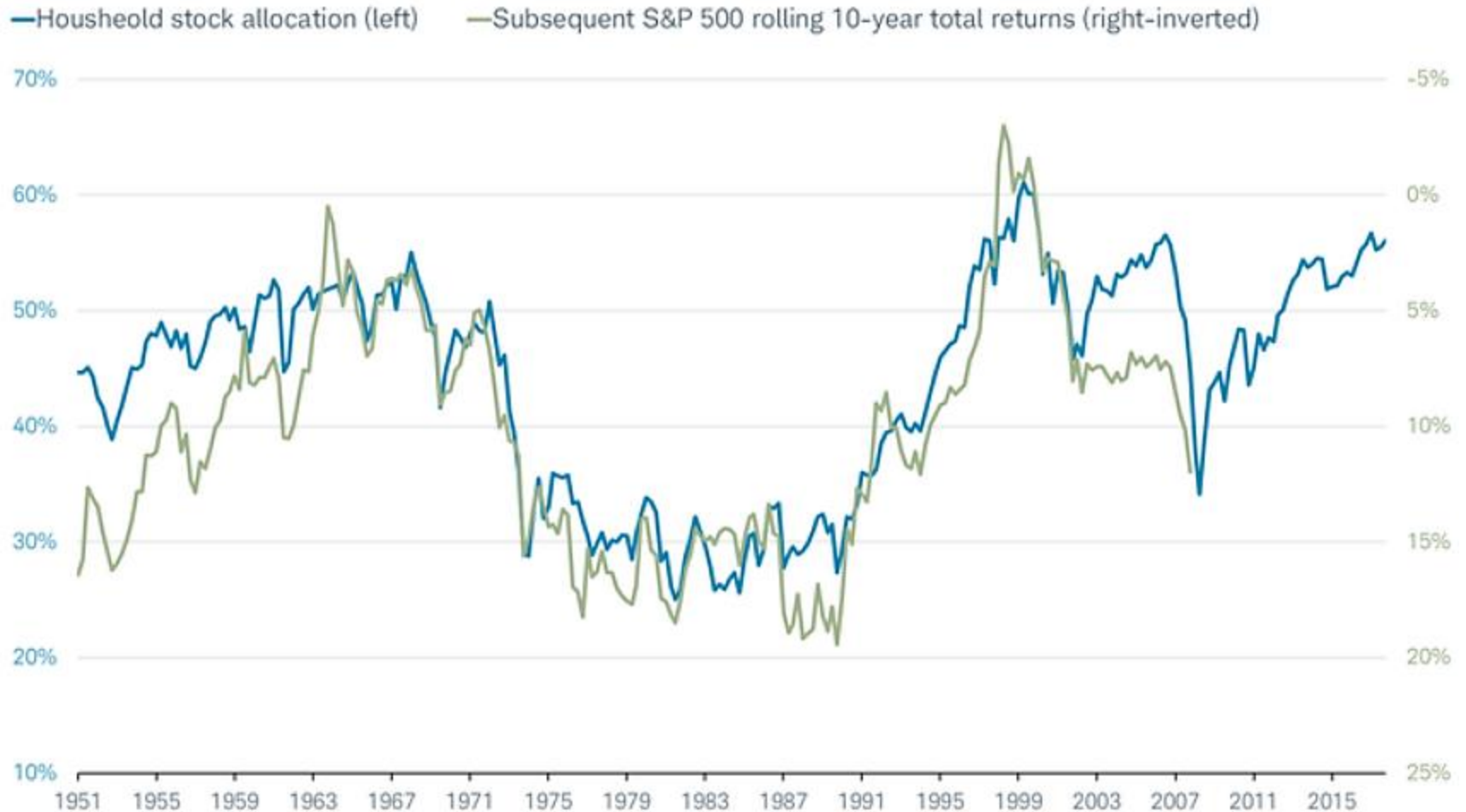
S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.9%, annual returns positive in 29 of 39 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2018, over which time period the average annual return was 8.4%. Guide to the Markets – U.S. Data are as of December 31, 2018. Past performance is not indicative of future results. There are no assurances that movements or trends can or will be duplicated in the future. The volatility of the indexes could be materially different from that of a client's portfolio. Indexes do not reflect fees and expenses and are not available for direct investment.

Households' Stock Allocation Near-Record



Source: Charles Schwab, FactSet, Ned Davis Research (NDR), Inc. (Further distribution prohibited without prior permission. Copyright 2018 (c) Ned Davis Research, Inc. All rights reserved.), as of September 30, 2018. Equity allocation (includes mutual funds and pension funds) is % of total equities, bonds and cash.

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GS Bull/Bear Market Risk Indicator

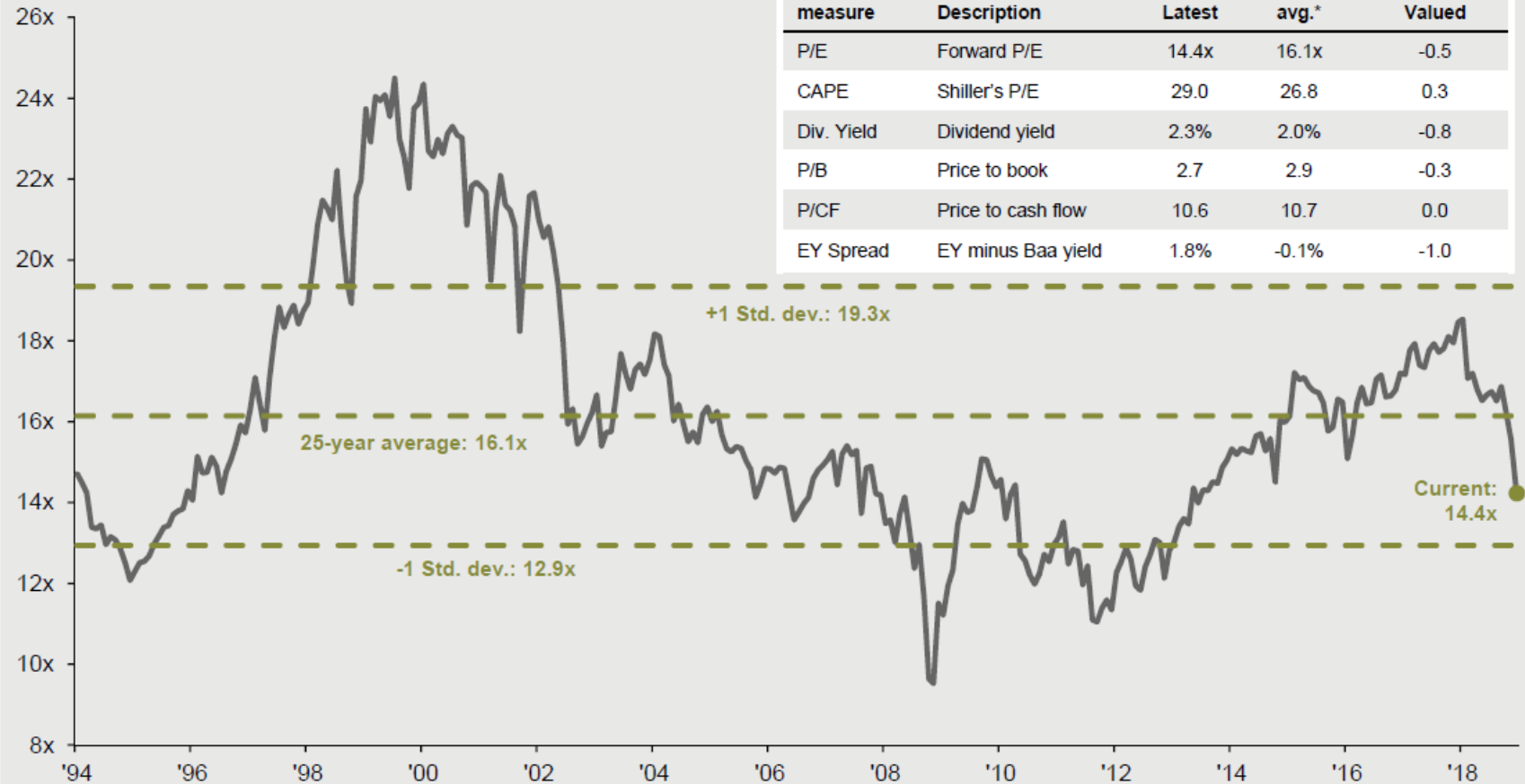


According to Goldman Sachs, its Bull/Bear indicator at 73% marks the highest reading since the late 1960s and early 1970s and indicates that a period of lower U.S. stock returns should be anticipated.

SFG cannot guarantee projections or that estimates will actually be met. Please see our disclosures at the end of this document.

U.S. Stock Valuations

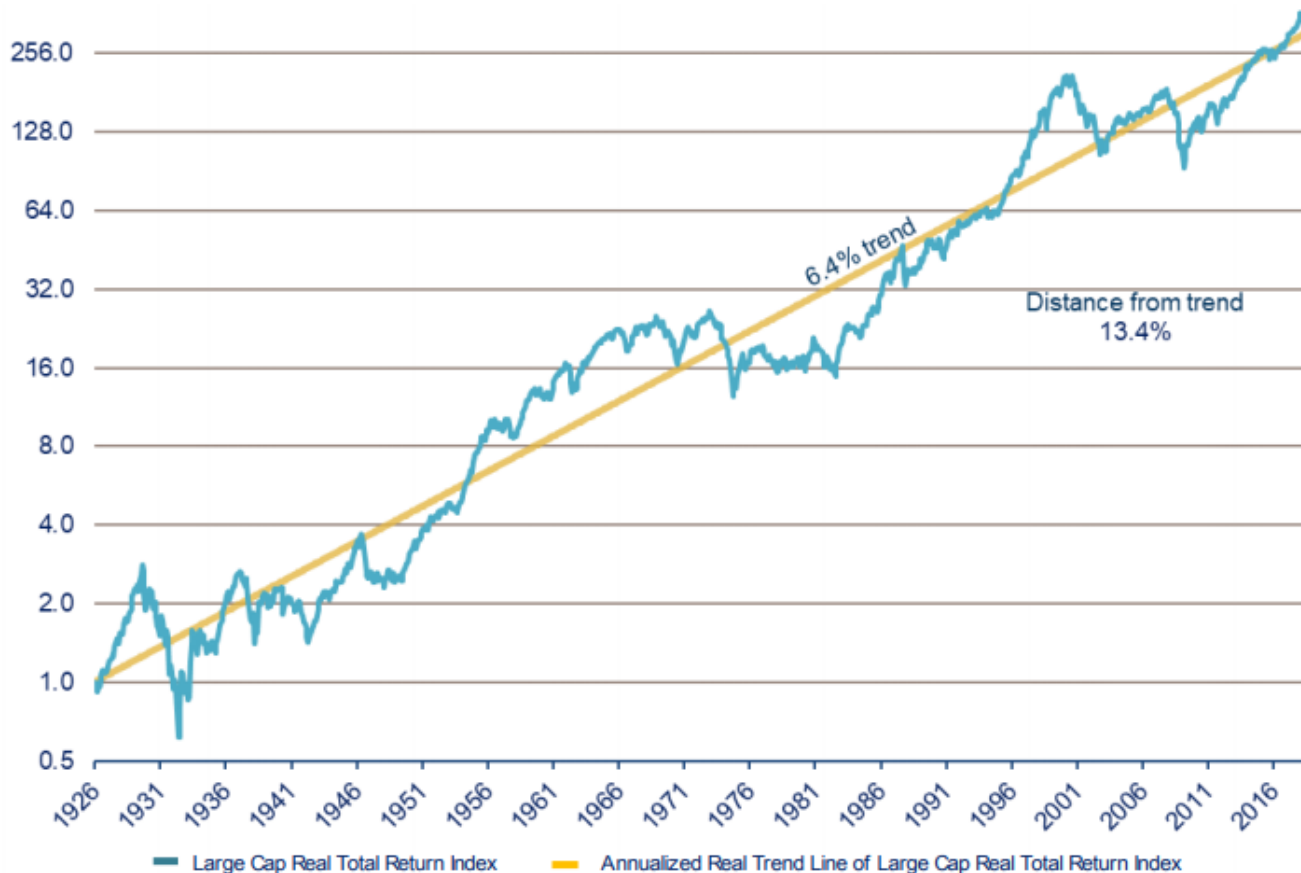
S&P 500 Index: Forward P/E ratio



Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1993, and FactSet for December 31, 2018. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow data availability. Guide to the Markets – U.S. Data are as of December 31, 2018.

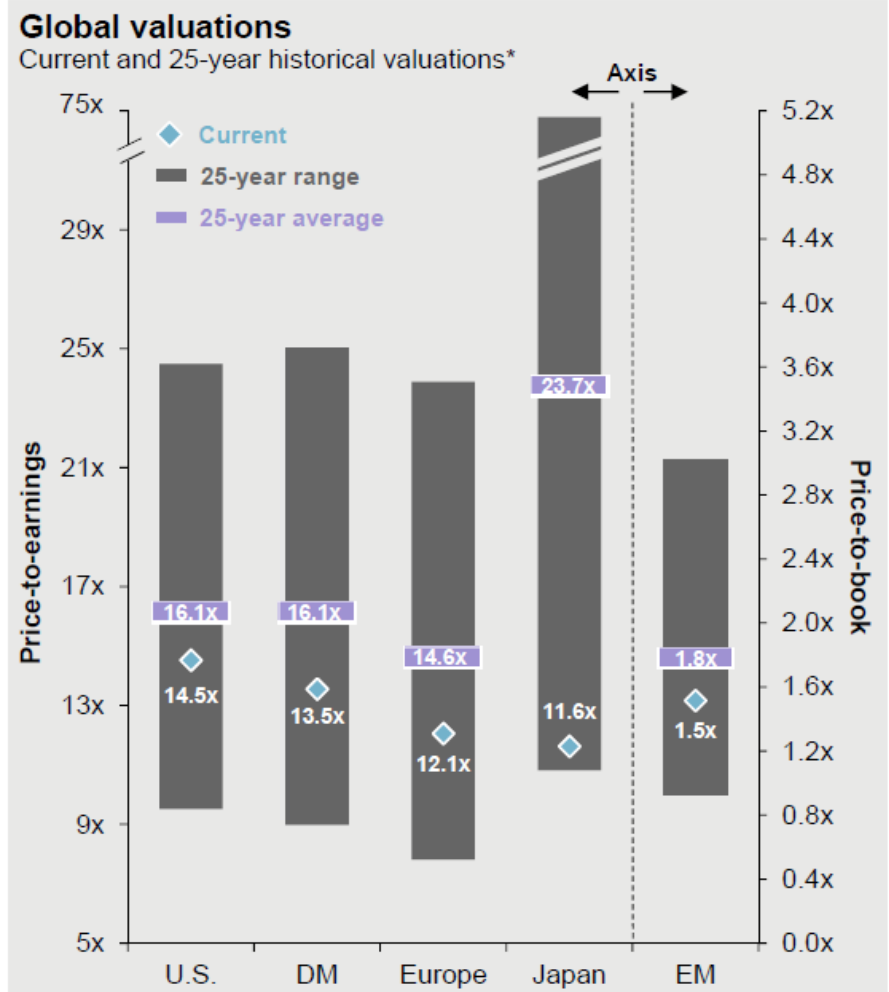
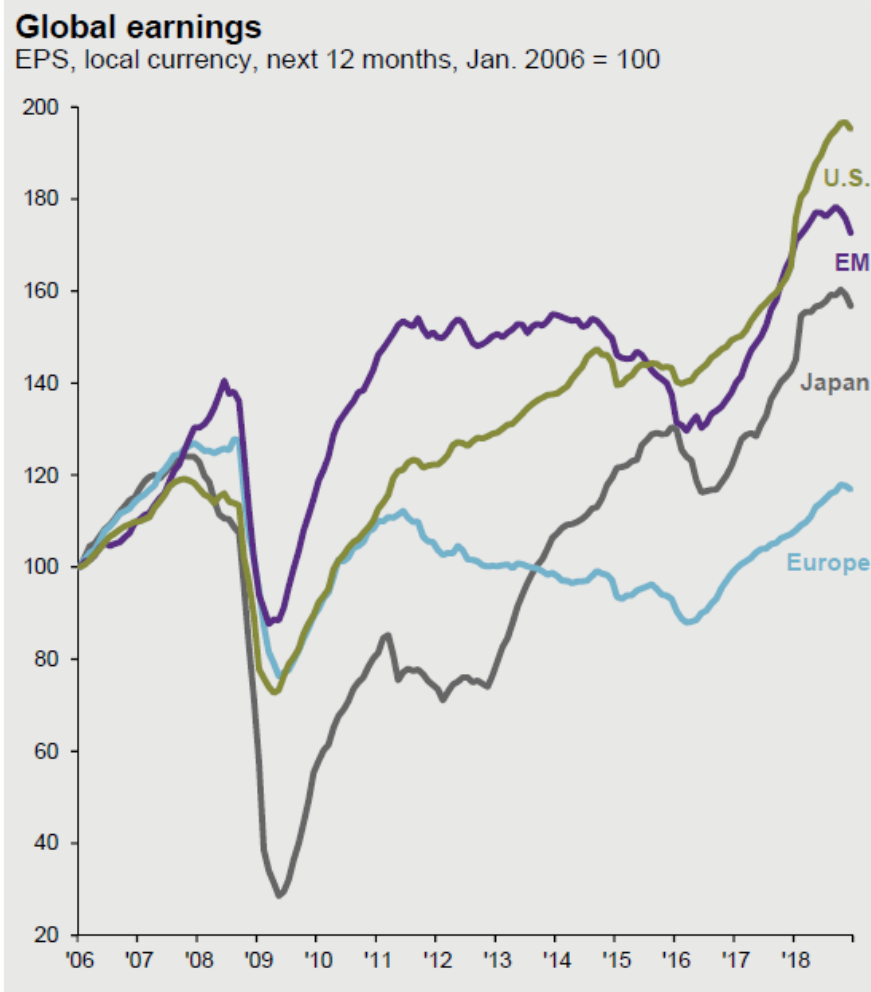
Large Cap U.S. Stocks

REAL TOTAL RETURN INDEX



Source: RiverFront Investment Group, calculated based on data from CRSP 1925 US Indices Database ©2016Center for Research in Security Prices (CRSP®), Booth School of Business, The University of Chicago. Data from Jan 1926 through November 2018. Past performance is no guarantee of future results. Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future. It is not possible to invest directly in an index. RiverFront's Price Matters® discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation. Blue line represents the Large Cap Real Return Index. Yellow line represents the Annualized Real Trend Line of Large Cap Real Total Return Index according to Price Matters®. Shown for illustrative purposes only, not indicative of RiverFront portfolio performance. Information or data shown or used in this material was received from sources believed to be reliable, but accuracy is not guaranteed.

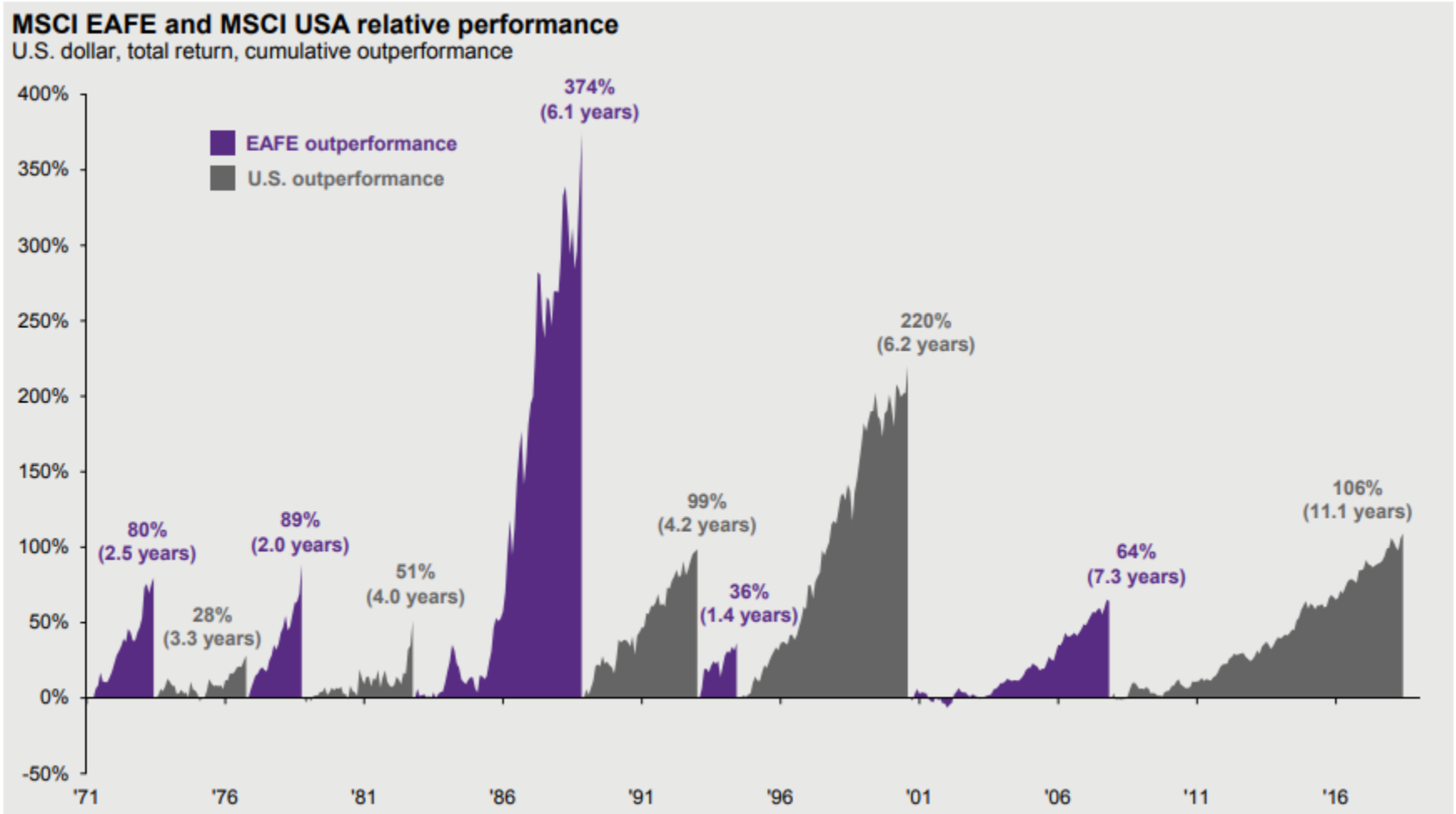
Global Equity Earnings and Valuations



Source: FactSet, MSCI, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.

*Valuations refer to NTMA P/E for Europe, U.S., Japan and developed markets and P/B for emerging markets. Valuation and earnings charts use MSCI indices for all regions/countries, except for the U.S., which is the S&P 500. All indices use IBES aggregate earnings estimates, which may differ from earnings estimates used elsewhere in the book. MSCI Europe includes the eurozone as well as countries not in the currency bloc, such as Norway, Sweden, Switzerland and the UK (which collectively make up 47% of the overall index). Past performance is not a reliable indicator of current and future results. Guide to the Markets – U.S. Data are as of December 31, 2018.

Performance of U.S. vs. International Stocks



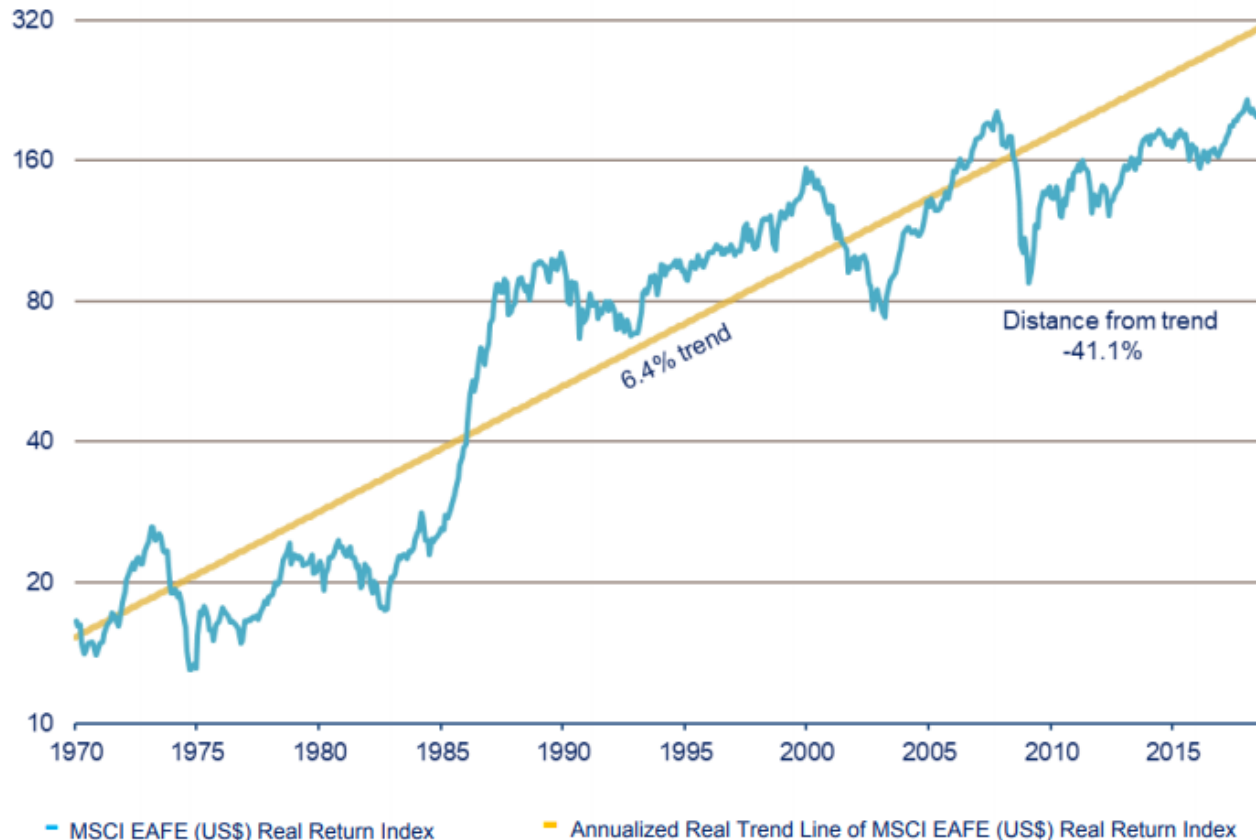
Source: MSCI, FactSet, J.P. Morgan Asset Management.

*Cycles of outperformance include a qualitative component to determine turning points in leadership. Guide to the Markets – U.S. Data are as of December 31, 2018.

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MSCI EAFE (in U.S. dollars)

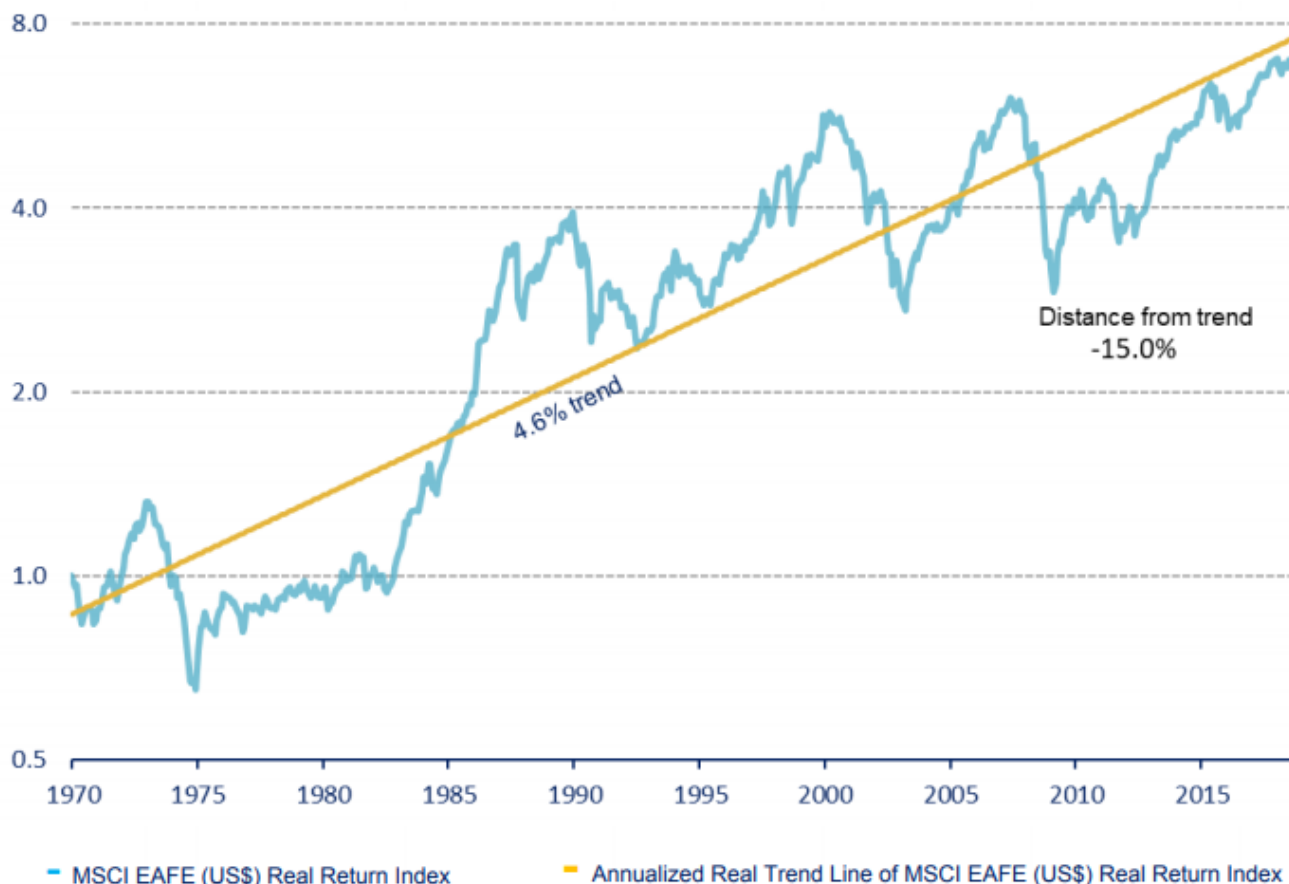
REAL TOTAL RETURN INDEX



Source: RiverFront Investment Group, Factset. Data from Jan 1970 through November 2018. Past performance is no guarantee of future results.. It is not possible to invest directly in an index. RiverFront's Price Matters® discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation. Blue line represents the MSCI EAFE (US\$) Real Return Index. Yellow line represents the Annualized Real Trend Line of MSCI EAFE (US\$) Real Total Return Index according to Price Matters®. Shown for illustrative purposes only, not indicative of RiverFront portfolio performance. Information or data shown or used in this material was received from sources believed to be reliable, but accuracy is not guaranteed.

MSCI EAFE (Local Currencies)

REAL TOTAL RETURN INDEX



Source: RiverFront Investment Group, Factset. Data from Jan 1970 through November 2018. Past performance is no guarantee of future results.. It is not possible to invest directly in an index. RiverFront's Price Matters® discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation. Blue line represents the MSCI EAFE (US\$) Real Return Index. Yellow line represents the Annualized Real Trend Line of MSCI EAFE (US\$) Real Total Return Index according to Price Matters®. Shown for illustrative purposes only, not indicative of RiverFront portfolio performance. Information or data shown or used in this material was received from sources believed to be reliable, but accuracy is not guaranteed.

SFG 2019 Forecast

SFG 2019 Forecast

Scenario Type		Base Case	Bear Case	Bull Case
Concept		<i>Volatility continues with potential range-bound trading. Economic growth and corporate growth slows but avoids turning negative. Fed takes a pause on rate hikes until confirming economic data.</i>	<i>Trade war escalates further and/or a geopolitical crisis results in a repricing of risk. Economic growth disappoints but avoids a financial crisis.</i>	<i>2018 economic growth persists as a significant trade agreement is reached with China. Fed remains accommodative. Investor sentiment lifts equity markets back to all-time highs.</i>
Probability		45%	25%	30%
U.S. GDP Growth		2.20%	1.10%	3.00%
Fixed Income	U.S. 10 Year Interest Rate	3.05%	2.30%	3.50%
	U.S. 10 Year Total Return	0 to -2%	5 to 7%	-4.5 to -6.5%
Global Equity Markets		<i>Trade war fears remain a headwind until a substantive agreement is made. International stocks continue late 2018 outperformance with a boost from a weakening US dollar.</i> <i>S&P 500 ends the year at 2,655 representing an approximate 7.9% total return.</i>	<i>Negative earnings growth in some sectors and negative global growth pressure equity markets. Corporate debt yields widen substantially leading to an increasing number of downgrades and defaults.</i> <i>S&P 500 ends the year at 2,160 representing an approximate -12% total return.</i>	<i>With trade fears averted, Emerging market stocks outperform. Softening of global economic data displayed at the end of 2018 turns out to be temporary.</i> <i>S&P 500 ends the year at 2,935, representing an approximate 18.5% total return.</i>
Unemployment (U3)		3.70%	4.40%	3.30%
Oil (WTI)		\$60	\$40	\$70
Inflation (Core CPI)		2.20%	1.50%	2.80%

Source: Stearns Financial Group (SFG) Investment Committee.
SFG cannot guarantee projections or that estimates will actually be met. Investing involves risk, including possible loss of principal. Please see our disclosures at the end of this document.

Our Take

- **U.S. economic growth cools but remains reasonable**
- **International economic growth also cooling, but majority of the world still growing**
- **Fear has cooled investors' "animal spirits"**
- **Geo-political "bad seeds" risks are bubbling, although near-term risk is modest**
- **Risk vs. Reward balance is modestly positive**

Our Take

- **Exponential technologies on sale**
- **Emerging markets on sale**
- **International mid/small cap on sale**
- **International blue chips have outsized return potential with lower risk than most other AG areas**
- **Semi-liquid and Illiquid alternatives often mispriced**

Our Take

- **Rising risks on the horizon suggest caution**
- **Expect more modest three- to five-year returns**
- **Money markets look more attractive**
- **Bonds – shorten duration, increase quality overall**
- **U.S. stocks – focus on quality, rebalance value and growth**
- **International stocks – focus on quality**
- **Carefully consider pros and cons of alternatives**

Our Take

- **Exercise caution when considering annuity products**
- **Beware behavioral financial traps**
- **Ignore what's “normal” for your age and stage – what is your “sleep well” vs. “eat well” balance?**

Financial Planning Strategies for Uncharted Waters

- 1. Got a plan?**
- 2. Second mate fully briefed and ready?**
- 3. Safety net (fuel reserves) – back to two years of living expenses in cash (scaled to risk level)**
- 4. Mitigate the risks as you age – depression, behavioral finance, brain chemistry changes, other fourth quarter fumbles**

Index Definitions

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses. The volatility of the indexes could be materially different from that of a client's portfolio.

Equities:

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **Russell 2000 Index**[®] measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

Fixed income:

The **Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than three months and more than one month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible.

The **Bloomberg Barclays U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency). The index has an average maturity generally in the intermediate-term range (5-7 years). Provided the necessary inclusion rules are met, US Aggregate-eligible securities also contribute to the multicurrency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt. The U.S. Aggregate Index was created in 1986 with history backfilled to January 1, 1976.

The **Bloomberg Barclays Global High Yield Index** is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the U.S. High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices. The high yield and emerging markets subcomponents are mutually exclusive. Until January 1, 2011, the index also included CMBS high yield securities.

Other asset classes:

The **Bloomberg Commodity Index** and related sub-indices are composed of futures contracts on physical commodities and represents 22 separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.

The **NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

Questions?



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The Triad Business Journal's (TBJ's) 2016 Most Admired CEOs is not indicative of future performance. The TBJ Most Admired CEOs honors the Triad's outstanding business leaders. The honorees are selected among local CEOs and company presidents at both nonprofit and for-profit organizations, including both public and private companies. Nominees do not necessarily have to carry the title CEO, but they must be the top executive for their organizations. Honorees are chosen by TBJ designated judges from a pool of online nominations. Those chosen for the honor will have demonstrated vital leadership and a customer service philosophy, outstanding employee relationships, contributions to the community and evidence that they have shaped their company's products or services to help lead their business to success.

The Inc. 5000 is an annual ranking of America's fastest-growing private companies based on percentage revenue growth over a three-year period.

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