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Important Reminders:

- Bank Holidays: Oct 14 & Nov 11. No Checks or Settlements
- NYSE Closed for Thanksgiving Nov 28
- NYSE Early 10:00am Close Nov 29
- NYSE Early 10:00am Close Dec 24
- NYSE Closed for Christmas Dec 25

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*There is no Frigate like a Book
To take us Lands away
Nor any Coursers like a Page
Of prancing Poetry —*

Emily Dickinson

Greetings from the Northwest.

During past market cycles I had a chance to read company reports, newspapers and periodicals. Visit with company executives and their business to business trading partners. Reflect on business and industry segments and then pin it all up on my “wall of worry” and look at it. The process was a little like adding a new chapter to an ongoing story each quarter. Everything must continue to evolve. Well, welcome to the crazy-fast times. It is not as common as it once was to read a book. The tales of far-off lands now arrive as fast as the next news cycle, which is terrifying. It’s hard to find time to reflect on the good or the generous and the joy of a poem. And why would we when we can be entertained and amazed at the silly, greedy and stupid behavior of so many prancing world leaders?

Let’s take a moment of our precious time and focus on the real monster in the room. Uncertainty. It has often been said that the “market” likes good news, dislikes bad news and absolutely hates uncertainty. We should add that investors don’t like volatility. Uncertainty creates volatility, which causes investors to become restless. Restless about what? Patrick has been doing some thought-provoking work looking into the comings and goings of recessions. Yes, I’ve said it. Recession. We will have them. Patrick’s work is helping shed light on the recession monster and what we should be doing now . . . or not. Read on.

Patrick’s Part

Equity returns during the quarter were mixed, with large-cap U.S. stocks posting a slight gain of 1.7%, while small-cap U.S. stocks, international developed stocks, and emerging market stocks posted slight losses of -2.3%, -0.79%, -4.75% respectively. Volatility has started to pick back up again, as markets grapple with a combination of



Photo by: Sean O.

trade tensions, changes in monetary policy, and slowing global growth.

During the year we spend a lot of time with our clients discussing what is going on in their lives, the ongoing management of their wealth, and how we view this ever-changing market environment. We learn a great deal from these discussions. Though the economy has been strong over the last few years, in recent months we have observed recessionary fears rising amongst the public and the folks we talk with. It’s easy to see why, as the news chatters regularly about when the next recession will happen. This has largely been driven by the consistent yield curve inversion. As of August 31, 2019, the New York Federal Reserve Bank’s Recession Probability Indicator, based on the yield curve, has moved to a 37% chance of recession within the next 12 months, up from 14.5% a year ago.

In April, I wrote about the lag times after the yield curve inverts and the inconsistent message that an inversion sends (you can read the letter on our website). However, there are more data points in recent months revealing that the economic recovery is showing signs of stalling. We take evidence as it comes and do not attempt to predict the likelihood of when the next recession will start. At this time, the data we analyze does not point to

immediate recession. Where we have been focusing our efforts is in analyzing what the most likely market experience would be if we entered a recession in the near term. Our conclusions are as follows:

- Investor experience is quite different based on how expensive or cheap the stock market is at the time of recession and leading up to it.
- When market valuation is high, top-to-bottom market experience is much more drastic than the market experience only during recession dates.
- If a recession is not right around the corner, equity markets could continue to move higher.
- Unfortunately, the S&P 500 is expensive, increasing the chance of large market declines if market trends change.
- Your portfolios have a much lower valuation (cheaper) than the broad market.
- Historically, cheaper portfolios tend to have far less loss than more expensive portfolios during market declines.

With the market cycle being in the later stages, we do realize that there may come a time to lower equity exposure below what a desired percentage normally is. Over the coming months, we may be reaching out to you and sharing our most recent research and how we might act if the economic or market environment should shift.

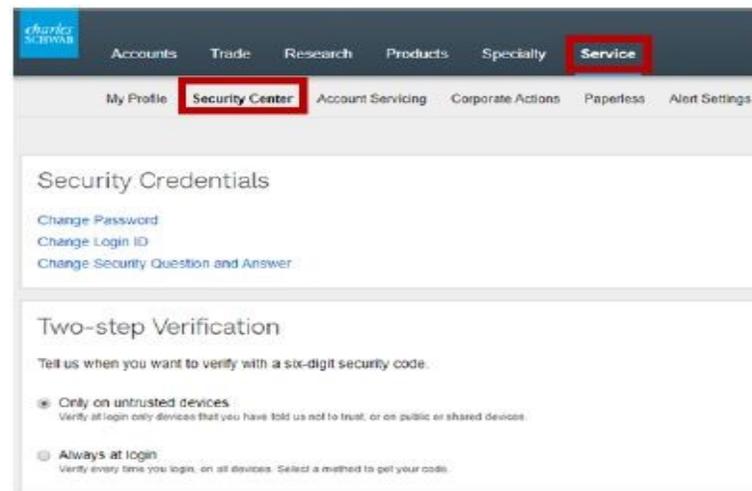
On a positive note, as Cairn searches the investment landscape for opportunities, we have continued to find quality companies to invest in that are trading at appropriate prices. —Patrick Mason

Jesyca's Part

As our reliance on technology continues to advance, cybersecurity is of the utmost importance. We are always keeping an eye out for suspicious activity in your accounts and will call to verify as soon as we see any changes made. Cairn has your back. If you access your accounts online through Schwab Alliance, here are a few helpful tips to improve the security of your accounts:

- Use unique passwords for sensitive websites, like financial institutions. Using the same password for multiple sites can put you at risk of compromised account security.
- Two-step verification adds a layer of security to your login credentials. After entering your login credentials you will receive a single-use six digit password via text message, email, voice call, or by calling Schwab. There are two options for setting up this feature: "Only on untrusted devices" or "Always on login." You can update your preferences

once you are logged in to Schwab Alliance by selecting the "Service" tab, then "Security Center."



- Ensure your contact information is up to date, and let us know if you make any changes to your address, home or mobile phone numbers, or email addresses.
- Should you need to deal with Schwab over the phone, you have the option to activate a verbal password. This would act as the primary authentication Schwab would request before discussing any account information.

I would be happy to further discuss these options if you have any questions or would like to learn more. —Jesyca Lazo

Thank you, Patrick and Jesyca.

Come on by and let's review your equity exposure and/or two-factor authorization. We'll make sure the coffee is fresh.

Happy Trails,

Jim Parr, Principal
Cairn Investment Group, Inc.