WINFIELD
ASSOCIATES

Winfield Quarterly
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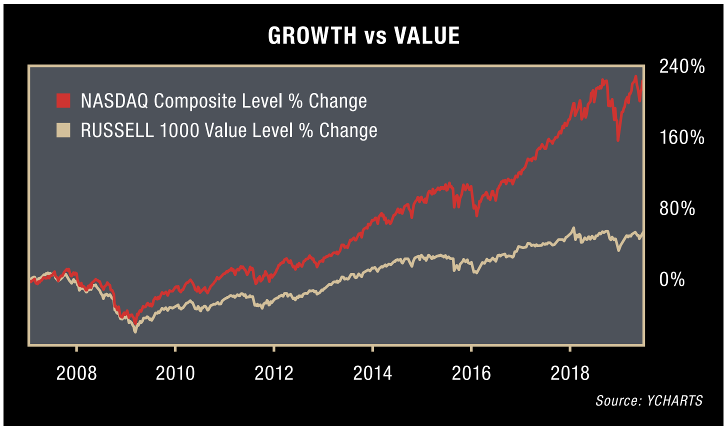
Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

Global financial markets rallied through most of the first half of 2019 as falling interest rates and improving trade negotiations benefited both equity and bond investors. The S&P 500 finished the period up 18.5%, the MSCI Europe, Australasia, and Far East (EAFE) Index gained 14.0%, and the Barclays Aggregate Bond Index climbed 6.1%. While equities rose steadily throughout the first quarter of the year, the second quarter of 2019 proved more volatile. The S&P 500 Index closed at a new high at the end of April, buoyed by a de-escalation in trade tensions and rising expectations that central banks would ease policy to support slowing global growth. In May, a breakdown in US-China trade negotiations and threatened tariffs on imports from Mexico, led to a -6.4% decline in the S&P 500. Then in June, at the Federal Open Market Committee (FOMC) meeting, the Federal Reserve signaled a pivot to cut interest rates by year-end. Additionally, trade tensions between the United States and China eased following the June G20 meeting in Osaka, Japan, pushing the index up 7.0% for the month to close the second quarter at a new all-time high of 2,941.

Investors' enthusiasm continued into the first few weeks of the third quarter. On July 15, the S&P 500 recorded another all-time high of 3,014, extending the longest bull market in history to 123 months. The market capitalizations of three companies – Microsoft, Apple, and Amazon – each hovered slightly below or slightly above the $1 trillion mark. Yet, within the broader scope of US equities, many stocks have underperformed during the bull market. In particular, value investing has lagged growth investing throughout most of the past ten years. In the graph below, the cumulative performance of the technology-heavy NASDAQ Index (Growth) is compared with the widely diversified Russell 1000 Value Index from January 1, 2007 to July 15, 2019.



Since the beginning of 2007, the NASDAQ is up over 222% while the Russell 1000 Value Index has only appreciated 55%. Today, the five largest constituents of the NASDAQ Index include the three aforementioned tech titans plus Alphabet (Google) and Facebook (added to the index following its May 2012 IPO). By comparison, the five largest constituents in the Russell 1000 Value Index are Berkshire Hathaway, JP Morgan Chase, Exxon Mobil, Johnson & Johnson, and Procter & Gamble. While both indexes fell concurrently during the Great Recession, the NASDAQ's recovery outpaced the Russell 1000 Value's climb right from the March 2009 trough. Investors' willingness to pay for growth companies has not relented, and despite attractive earnings multiples, book values, cash flows, and other traditional fundamental analysis, value stocks have languished. Theories explaining why growth has outperformed value are numerous. Some think markets are more efficient as algorithms and high frequency trading take the emotion out of investing. Since many of the metrics favored by value investors are easily available, computer-based models may quickly eliminate the ability to profit off of value opportunities. Others believe that record low interest rates favor fast-growing companies like Facebook and Amazon that have a low cost of capital and bright possibilities in the future. Perhaps the most compelling argument for growth's outperformance is the disruptive nature of information technology and the revolutionary efficiencies realized by digital innovation.

When Apple introduced the iPhone in 2007, few investors could have imagined that over the next decade, its technology would transform how we communicate, record images, listen to music, order household goods, transact business, and bank with the world's largest financial institutions. Apple's disruptive technology not only leapfrogged its mobile phone competitors like Motorola, Blackberry and Nokia, it created all new demand for products and services that didn't exist prior to 2007 like iCloud Storage and the App Store. Investors who picked Apple and growth companies that contributed to the associated disruption benefited far more than they could have anticipated at the launch of the iPhone and other leading technologies.

Similarly, in 2019, investors are anticipating that innovations in cloud computing, machine learning, and artificial intelligence will lead to better identification of customer needs and improved management controls to mitigate traditional business cycles. The McKinsey Global Institute estimates that artificial intelligence and machine learning could boost global economic activity by $13 trillion by 2030, which could mean an additional 1.2% GDP growth per year over the coming decade.

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Companies leading innovation in these areas are decidedly concentrated in the NASDAQ Index, explaining at least in part why growth companies continue to outperform.

The duration of the bull market has many investors wondering when growth stocks will collapse akin to the dot-com bubble in 2000. Growth investors claim that it's different this time as companies leading disruption like Microsoft, Apple, and Amazon are generating unprecedented revenue growth and cash flow. On the other hand, value investors believe the online transformation of our economy is nearly complete and excitement around disruption will soon disappear. Moreover, value investors believe that many of the digital efficiencies created by the disrupters will soon be adopted by old industrial companies, generating new efficiencies for old businesses.

As always, we remain vigilant for signs of changes in market trends, and the shift away from growth investing does not yet appear obvious. Strong economic conditions and low interest rates bolster the growth thesis as US Gross Domestic Product (GDP) is projected to surpass $21 trillion in 2019 compared to $14 trillion in 2009. Weekly unemployment claims are near 50-year lows, job creation is strong (averaging 180,000 per month), the unemployment rate is at an unprecedented low of 3.7%, personal income is up more than 4%, and personal spending is up 4.2%. We continue to recommend that clients buffer the volatility and growth potential of equities with allocations to fixed income that are in line with investment goals and time horizon.

WINFIELD IS GROWING

In October 1997, Bill and Biff Baker co-founded Winfield Associates to provide unbiased, fee-only customized investment management to individuals and small institutions. As Winfield has grown in both assets under management and team size, we broadened our offerings to include private wealth advisory services. Today Winfield advises over 200 clients nationwide on over $250 million in assets. Recently, we made a number of changes to our team.

Bill Baker, CFA has been named Chairman.

Biff Baker has been named President.

Mark Haley has been named Executive Vice President and remains a key part of the executive team operating in San Diego, CA.

Brad Norton, CFA serves as an advisor to individuals and leads our Endowment Solutions practice which is focused on managing endowments for foundations and not-for-profits. Brad has over 17 years of institutional investment experience.

Paul Rodgers, CFA joined the Winfield team in July 2019. Paul has over 30 years of investment experience as an equity analyst and portfolio manager. Paul founded Gold Leaf Capital Management in 1998 before joining Winfield this month.

Please visit our website to learn more www.winfieldinc.com.

MARKET PERFORMANCE

	2Q 2019	2019 YTD
Dow Jones	3.2%	15.4%
S&P 500	4.3%	18.5%
Nasdaq	3.9%	21.3%
Russell 2000	2.1%	17.0%
MSCI EAFE	3.7%	14.0%
Barclays Agg	3.1%	6.1%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS
- Manage accumulated wealth, inheritances and settlements

ENDOWMENTS AND FOUNDATIONS
- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS
- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS
- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES
- Customize investment portfolios with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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