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END OF YEAR 2019 INVESTMENT COMMENTARY
UNSEASONABLY EUPHORIC

It is now 2020, and looking at 2019 in the rearview mirror; it was a tail of two market narratives. We started 2019 off shaking off a "flash bear market" in the broad equity indices during the fourth quarter. The U.S. equity markets spent the first five months of last year recouping those fourth-quarter losses, only to experience another 7-10% sell-off between May and June on renewed economic growth and recession fears. By the end of June, the markets began to recover on confidence that the Federal Reserve would cut interest rates at their July meeting, which they indeed ended up doing. By the end of July, the equity markets had recovered from the May-June correction and took on markedly positive sentiment as they foresaw addition Federal Reserve accommodation and the likelihood that the China tariff escalation risk would likely abate as we entered the Presidential election cycle.

Seven Summits Capital accounts faired relatively well through the 2018 Fourth-Quarter bear market as we had begun implementing a more cautious stance earlier in 2018. We continued that cautious stance throughout 2019; however, on average most accounts captured most, if not more, of 2019's strong capital market returns.

As we now look ahead to 2020 and the potential opportunities and risks, we have decided to maintain a similar cautious, but opportunistic outlook that we maintained throughout 2019. We are starting 2020 at near-record broad market highs, as opposed to this time last year, when the broad markets began the year 20% below cycle highs. Thus, with 2020 being a Presidential election year and economic and earnings growth continuing at levels just above stall speed, I am not able to justify a euphoric market sentiment.

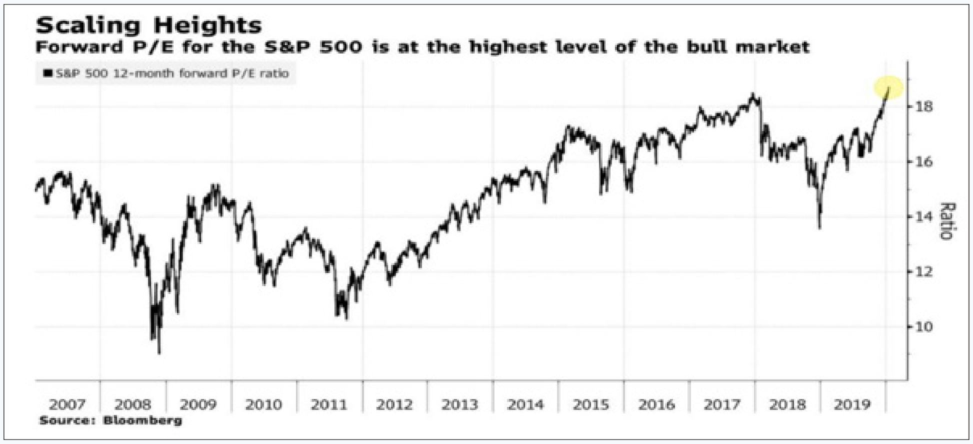
The euphoric sentiment in the market so far in January 2020 reminds me of the 69-degree day that we experienced here in PA during the first week of January. If one wanted to convince themselves that we are in early May, it would have been possible if a blind eye is turned to the calendar, the brown foliage, and the absence of robins and butterflies.

I have learned over the long arch of my career that it is irresponsible to simply look at the thermostat (market price action) to assess opportunity and risk. To be a professional investor, you have to look at the environment that surrounds the markets and determine what level of caution is warranted based on the visible disconnects. Below are some of the brown foliage that I see which tell a contrasting story from what the markets are indicating:

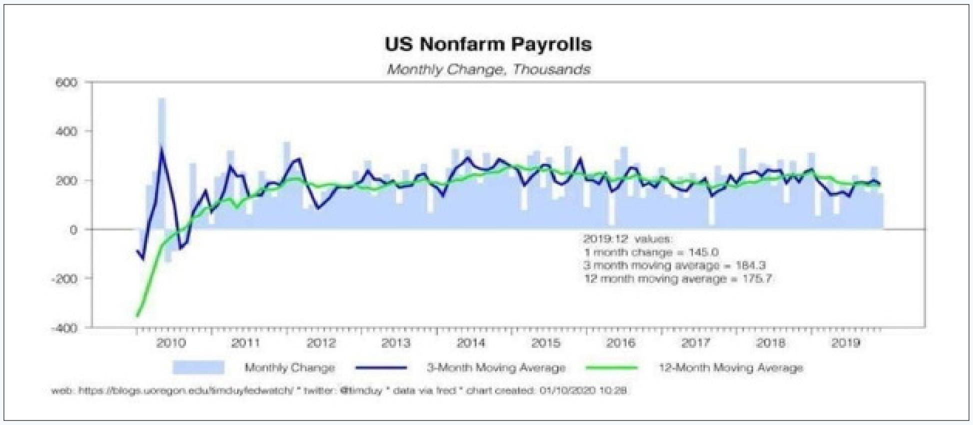
(see charts on following pages)

The United States technically experienced an industrial recession over the last 12-18 months, and the ISM Manufacturing Index sat at a 10-year low at the end of 2019.

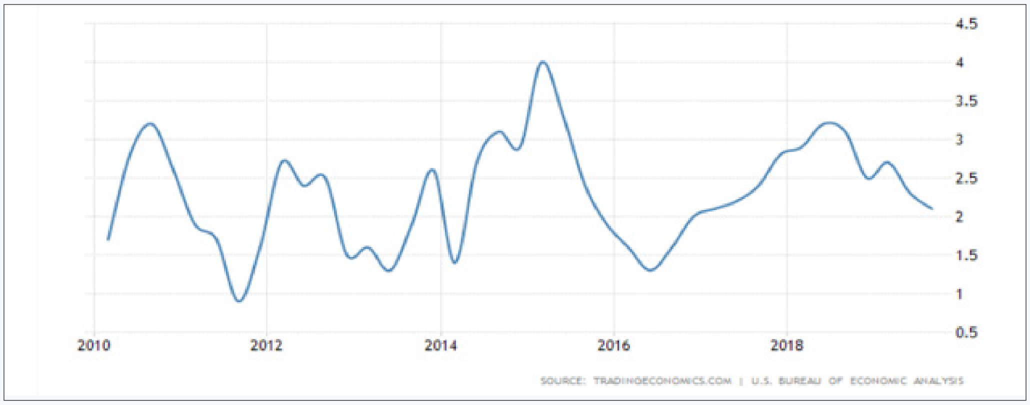
The most common and used equity market valuation metric, the P/E ratio is sitting at 12-Year highs:



Lastly, market and economic metrics are meaningless without proper context. Conventional wisdom is that the U.S. economic metrics, particularly the historically low unemployment rate, are indicative of a market environment that is supportive of risk-taking and above-average market returns. The chart below shows monthly non-farm payroll growth published by the Bureau of Labor and Statistics (BLS), and the two colored lines represent a more meaningful look at the three-month and twelve-month trend lines:



The chart below tracks quarterly reporting of annualized GDP growth rates since 2010:



I am not fooled by the thermostat (markets) because markets are strongly influenced in the short-term by behavioral factors (fear and greed), versus fundamental realities. So, it may be near 70 degrees and sunny in early January, and I may break out a short-sleeve shirt and go the driving range to hit a bucket of balls, but what I won't do is pack away my sweaters and gloves and plan a picnic for next week. Realities prevail, and I factually know that the northern hemisphere of the earth is tilted away from the sun in January, producing our winter season. Nothing that I see or feel on any given day will convince me that we are in a different season. My sentiment on an unseasonably warm January day is that it may feel like spring, but this is only an illusion of the senses because the calendar and the physical reality informs me that we are still in the midst of our winter season.

I look forward to clear-eyed navigations of the markets again in 2020. The balance of managing risks and seizing opportunities will continue to be the primary focus as markets diverge from fundamental realities.

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