EverGuide
FINANCIAL GROUP

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Investor Update

With the stock market re-testing the lows we saw during the correction in February it can get a little bit scary. Especially since this time around the selloff is accompanied by a lot more negative news. The soap opera that is Washington DC, data breach in Facebook, Trade Wars, and the Federal Reserve banks removing stimulus are all contributors.

All of these are definitely concerns and can cause the market some harm. If you go back to the original downdraft in early February the talk was mainly focused on rising interest rates and some volatility products blowing up. Those two problems have mostly rectified themselves and we are faced with the new set as discussed previously.

What I want to focus on is the problem that a retest and or break of the previous lows can do psychologically and what the market should look like moving forward. First off, having weathered the first downturn fairly well, and watching account values come back the psychology was pretty good a few weeks ago. In other words, thinking was we had our correction and now the market can go back to highs. However, the second leg down is where doubt and fear start to creep back in and you begin to ask yourself maybe the rebound into early March was false and we are getting ready to drop another 10%. Most people will hang in and hang in and then when it drops to a new low they capitulate and say "sell, I just cannot take it anymore." This is typically when the market finds a more firm bottom as the "weak" hands are shaken out.

There are few things to pay attention to as we retest. The first is volatility and the second is volume. Neither of which are showing that this push to February lows is going to turn into an even worse price decline. Volatility is much lower than where it peaked at the February lows as shown below.

Additionally, volume is much lower now than it was during the February lows.

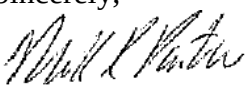
If you compare price and volume to the last big correction in early 2016 you will see that even though we made new lows in February 2016 after a late month rebound in January 2016. Volume did not come close to the first drop and this eventually ended up being the bottom.

The next week or two may get uglier, but if you strip away the noise, valuations are cheaper than they were before the presidential election in 2016, the economy is generally strong, companies are doing well, and we have not seen systemic problems in the credit market. This should lend itself to much higher prices in the coming months.

Last year and low volatility was an anomaly. The moves of the last few months are much more normal and should be expected for the rest of the year. While this can be painful at times, I believe that you will be in a better position in the next several months and will be looking for opportunities to reduce risk later in the year.

If you have any questions about our current portfolio positioning please contact me at 908-376-3041.

Sincerely,



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