BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

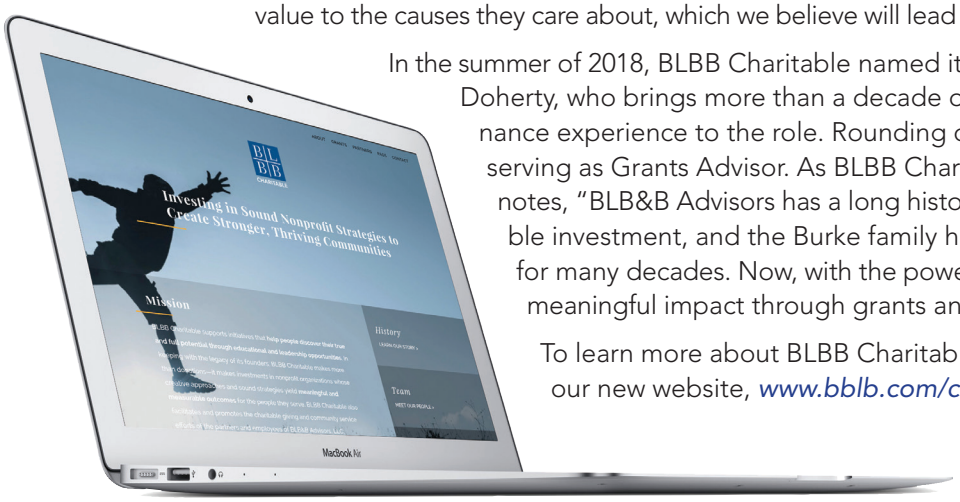
Quarterly
ECONOMIC REVIEW

3RD Quarter 2018

Introducing BLBB Charitable

In 2010, after 46 years of service to the investment advisory firm of BLB&B Advisors that he co-founded, Franklin A. Burke and his wife Elizabeth established the Cedarcrest Charitable Foundation. After he established the Foundation, Frank invited his BLB&B Advisors' partners John Lawton, Laura Brewer, Dean Karrash, and Clifford Haugen to join him on the Board of Directors. When Frank passed away early in 2018, the four remaining Directors determined to maximize the impact of the Foundation by expanding both its grants program and employee giving/volunteerism initiatives, all under the new mantle of ***BLBB Charitable – The Giving Arm of BLB&B Advisors.*** Elizabeth and the Burke family continue to lend advice and input as members of the Family Council.

A private grantmaking foundation, ***BLBB Charitable supports initiatives that help people discover their true and full potential through educational and leadership opportunities.*** In keeping with the legacy of its founders, BLBB Charitable makes more than donations—it makes investments in nonprofit organizations whose creative approaches and sound strategies yield meaningful and measurable outcomes for the people they serve. BLBB Charitable also facilitates and promotes the charitable giving and community service efforts of the partners and employees of BLB&B Advisors, LLC; encouraging them to harness their professional expertise and personal commitment to add value to the causes they care about, which we believe will lead to stronger, thriving communities.



In the summer of 2018, BLBB Charitable named its first Manager, Diana Loukedis Doherty, who brings more than a decade of philanthropic operational and governance experience to the role. Rounding out the Charitable team is Alan Hinkle, serving as Grants Advisor. As BLBB Charitable President Clifford A. Haugen notes, "BLB&B Advisors has a long history of community service and charitable investment, and the Burke family has avidly supported nonprofit causes for many decades. Now, with the power of BLBB Charitable, we can make a meaningful impact through grants and service for generations to come."

To learn more about BLBB Charitable and its grantmaking program, visit our new website, *www.bblb.com/charitable*

Please Join our New Client Portal!

Over the last several months, we have been sending email invitations to all our clients asking you to join our new client portal. The portal invitation email comes from BLB&B Advisors and it asks you to click a link in the email to set up a password. After you set up your own password you can then log into and access the various features of the portal.

There are many benefits to joining our portal! Portal delivery:

- Is more secure than printing and mailing client statements and other confidential information;
- Means you will receive your reports sooner;
- Makes digital storage much easier as you will have far less physical paperwork; and
- Is environmentally friendly!

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3rd Quarter 2018

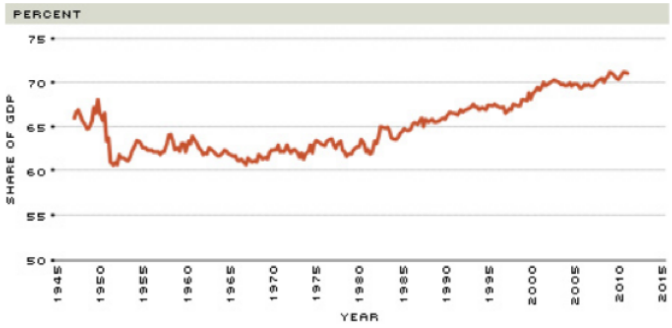
As the third quarter of 2018 winds down, U.S. equity markets are, once again, at or near all-time highs. U.S. treasury-bond yields have also been on the rise this quarter. The 30-year U.S. treasury, for example, started the third quarter with a 2.92% yield and now has a 3.22% yield – a 10% increase in just under three months. Despite the incessant drumbeat of negative news surrounding souring trade relations between the U.S. and China and the possibility of an ever-escalating conflict, U.S. financial markets continue to forge ahead in an environment of improving corporate earnings, lower corporate taxes, strong consumer and business confidence, low unemployment, and rising wages.

The U.S. economy is heading into its tenth year of an economic expansion that began about halfway through 2009. This is the second longest economic expansion in U.S. history and some economists and investors are beginning to wonder whether the end of this incredible expansion is in sight. It is only natural for these concerns to creep into the conversation about the current state of the U.S. economy given the length of the current expansionary period. But, the length of our expansion, by itself, is not a reason for the U.S. economy to interrupt its growth trajectory.

At this juncture, we believe the U.S. economy is not yet on the brink of slower growth or a recession. Rather, we think there is still some juice left in the tank that can propel the U.S. economy forward for the next 12 - 24 months. The U.S. economy, right now, simply does not look like an economy that will soon turn south. Indeed, the Federal Reserve noted in its August 1, 2018 press release that *"the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. …both overall inflation and inflation for items other than food and energy remain near 2 percent."*

As we look ahead to the coming 12-plus months, we think growth in the U.S. economy will continue to be supported, in part, by lower corporate taxes and other accommodative fiscal stimuli, a strengthening global economy, an attentive Federal Reserve that is focused on supporting reasonable economic growth, slowly rising wages, and a high level of optimism amongst U.S. business owners and leaders. Another key source of growth for the U.S. economy over the near- to mid-term is strong consumer demand for goods and services. U.S. consumer confidence just hit an 18-year high in September. Most U.S. consumers are employed, they feel secure about the jobs they hold, and their wages are rising. Also, consumer spending is responsible for up to 70% of U.S. economic activity. As you can see in the chart at left from the St Louis Fed website (*https://www.stlouisfed.org*), since 1945 consumer spending in the U.S. has been responsible for between 60 and 70% of U.S. Gross Domestic Product.

Personal Consumption Expenditures (PCE) as Share of Gross Domestic Product (GDP)



Source: Bureau of Economic Analysis; quarterly data through 2011:Q3

Finally, we believe the international trade disputes that have been dominating news headlines for months will eventually resolve without first causing too much damage to the U.S. or global economies. The U.S. and the EU recently reached an agreement whereby the two parties are working towards a zero-tariff trade environment between them. The U.S. also recently reached a new trade agreement with South Korea, a preliminary trade agreement with Mexico, and one with Canada may come soon as well. The U.S. trade dispute with China, however, does not appear to be close to resolving. Rather, the parties continue to throw barbs at each other in the media and to take a tit-for-tat approach in ramping up the tariffs on each other. There is concern that this dispute will spiral out of control and do some real damage to the U.S. economy and the world economy. Fitch Ratings recently announced that it was cutting its 2019 global

growth projection by 0.1% to 3.1% specifically because of the recent tariff escalation between the U.S. and China. (*https://www.fitchratings.com/site/pr/10045581*)

As we look ahead to 2019 and beyond and barring any unforeseen geo-political events, we think the two greatest potential threats to the U.S. economy and the ongoing viability of our economic expansion are the fed's monetary policy and the cumulative impact of extremely low unemployment. On September 26, 2018, the Fed increased the federal funds rate by another 25 basis points (0.25%) to a target range of 2-2.25%. This was a well-telegraphed move and probably surprised no one. The Fed further indicated that 2019 would likely bring 3 additional rate increases. Also notable in its press release, the Fed removed longstanding language about U.S. monetary policy being accommodative. While the Fed's announcement was totally expected and anticipated, it also represents a possible inflection point in U.S. monetary policy. For years – since 2007 – U.S. monetary policy has been accommodative. Now, all of a sudden, it isn't. This change in monetary policy has been coming for a while as the U.S. economy grew stronger and stronger. For so long during the financial crisis and its aftermath, the Fed was tasked with reviving and sustaining the U.S. economy. It was easy to see the economy needed to be stimulated in order to prevent a deepening recession or even a depression. Now, however, the road forward is less clear. The Fed knows it must strive to maintain the delicate balance it has achieved of low unemployment, 2% inflation, strong GDP growth, and normalizing interest rates. This is easy to say, though, and far more difficult to achieve. It is possible, for example, that the Fed will either get ahead of or behind the economic data. The Fed could wait too long to further increase interest rates and inadvertently allow inflation to spike. Conversely, the Fed could raise rates too aggressively and unintentionally stifle U.S. economic growth. We will have to wait and see how the coming couple of years play out to see whether the Fed is able to maintain its economic balancing act. It is quite possible that after a couple of rate increases in 2019 the Fed may find itself reversing course and reducing rates a little in 2020.

The ramifications of a tight U.S. labor market also have the potential to challenge our economic expansion and complicate the Fed's ability to correctly time its interest rate decisions. While low unemployment is generally seen as a strong positive for the U.S. economy, there are also some hidden negatives that, over time, can harm the economy. For example, many employers are now finding it extremely difficult to find and hire qualified employees – especially skilled employees. There are now more open and unfilled jobs in the U.S. than there are unemployed workers to fill them. And, many of the currently unemployed workers do not meet the education, skill, and experience levels required by a number of these open jobs. When employers cannot find people to hire, they are unable to expand and grow. Similarly, because employers are desperate to keep their skilled employees and to find more, they are increasing salaries and benefits. While this is great for employees over the near term it has the potential to inject inflationary pressures into the economy over the longer term. If employers must pay higher salaries, at some point they raise the prices of the goods and services they sell. Tight labor markets will also probably have a longer-term unintended consequence that could dramatically change how many companies operate. In other words, an environment of tight labor markets and rising wages could be a recipe for the accelerated development and use of robots, artificial intelligence, and other forms of automated and nonhuman "employees." We are already seeing this at automated tollbooths and at computerized ordering stations inside fast food restaurants like Panera and Honeygrow. While this will not happen overnight, the trend has already begun and we believe it will certainly expand over time.

In this environment, we think investors usually benefit from having a well-diversified basket of assets as we believe they will benefit from and participate in positive trends in financial markets and have some protection in downwardly trending markets. As always, if you would like to discuss U.S. or world financial markets or have any concerns or questions about your portfolios, please to not hesitate to reach out to your BLB&B financial advisor.

Please Join our New Client Portal!

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Once inside the portal, you will be able to view your holdings, transactions, asset allocation, and basic performance information. You will also be able to link all of your financial accounts (bank accounts, outside investment accounts, work retirement accounts, mortgages, home value, etc.) and get an overall view of your net worth. If you choose, you can export your data from the portal into Excel where you can further review and analyze it. Your portal also includes a document vault. This is a secure place for you to store electronic versions of your important documents such as your estate plan, trust documents, wills, powers of attorney, etc. We will also post your quarterly account statements and other account information directly to your portal.

If you think you may have deleted or misplaced your portal invitation or if your portal link has expired, please contact the portfolio administrator for your account(s) here at BLBB and we will send you another invitation. Please note, however, that we can only send portal invites to those clients for whom we have a valid email address. If you have not yet provided us with your email address, or if you would like us to use a different email address than the one we are currently using, please provide us this information as soon as possible.

L to R: Doug Huntley, Clif Haugen, John Lawton, Laura Brewer, Dean Karrash

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