Five Mile River Investment Management, LLC July 9, 2019
Quarterly Letter
2nd Quarter 2019

PERFORMANCE*

	FMR Performance		Russell 1000	Dow Jones	S&P 500
	Taxable	Retirement	Value	Industrial	Dividends**
2019 Q1	12.32%	13.35%	13.43%	11.81%	13.65%
2019 Q2	4.31%	4.00%	3.74%	3.21%	4.30%
2019 H1	17.16%	17.89%	17.68%	15.40%	18.54%

The second quarter and first half of 2019 set performance records across multiple asset categories. The S&P 500 registered the strongest rise in two decades, +18.54% (year-to-date 6.30.19). The Dow had the best June since 1938! The long bond, the 10-Year Treasury Bond, rose +11% (year-to-date 6.30.19), also a record and now yields 1.95%. Additionally, a handful of commodities produced double-digit gains as well (oil, nickel, palladium and iron ore).

The power of the current Goldilocks economy should not be underestimated! The hallmarks that the economy is "just right" include: stable to lower interest rates; negligible evidence of inflation; a durable U.S. economic expansion (GDP +1.5% to +3.0%). This remarkable asset performance occurred in the face of countless world economic, social, and political headwinds, too numerous to list. The stock market is not invincible. **The average annual return for the S&P 500, post WWII, has been approximately +9%, so the current six month gain is considerably outside the band of expected normal returns.** The 40% drop in 2008, and the 20% drop in the fourth quarter of last year, probably preclude another major correction, other than a normal 5% to 10% drop. Did anyone notice that the NASDAQ had a decline of 10.8% in May, which mostly reversed in June? The S&P 500 lost 6.58% in May but closed at a new high in June. Did the correction that everyone anticpated already happen?

What might change to dampen this enthusiasm? In spite of the plethora of unknowns and unknown unknowns, the U.S. economy has shown signs of slowing in just the last 40 days, which should become manifest over the next several weeks in many company earnings releases and forecasts. Already we have evidence of economic slowing in rail car loadings, Federal Express deliveries, a number of retailers' results, and even cell phone shipments, to name a few. No one has been able to disaggregate the negative economic impact attributable to: tariffs causing a slowing in global trade; or the economic impact of the nation-wide production halt at Boeing; or the generational high flooding of the Mississippi River which has stopped almost all traffic. Nevertheless, as these choke points ameliorate, so too should economic concerns. The coming weeks and months will be key in determining whether weakness becomes more persistent or NOT.

Remember as you read this, the month of July establishes that the current expansion has lasted for over ten years and is the longest of ANY other U.S. economic expansion. For perspective, while U.S. business cycles would typically last four to seven years, by contrast, Australia is now entering its 28^{th} year of economic expansion!

Aside from the current economic cyclical issues, there are a few structural positives that bear repeating. **First, world money flows should continue favoring the U.S.,** if only due to a lack of reasonable alternatives. With the German, Japanese, and Swiss government debt all yielding negative rates, and $12.5 trillion of this paper outstanding, there will be natural flows out and into much more attractive yielding U.S. bonds ($8 trillion) and into U.S. stocks ($24 trillion). **Second positive is the $2.5 trillion in cash held by the U.S. private equity funds!** This cash combined with debt leverage represents purchasing power of over $5 trillion. Therefore, you can imagine most U.S. CEO's are doing everything possible to enhance shareholder values so that the private equity predators will remain at bay. **Third, U.S. companies are changing their business models so that they can be cash flow positive.** Those companies that have the capacity to generate excess returns (cash), over and above their working capital and spending needs, have the most enviable position to enhance shareholder value by deploying portions of this excess cash in share repurchases and dividend increases.

Five Mile River (FMR) routinely screens for those companies that are miss-priced, AND have the ability to generate increasing cash, or cash flow. While this is now becoming a market mantra in stock selection, it has been the research process employed at FMR since inception for over fifteen years. Therefore, it should come as no surprise that four of the five best performing companies in the Dow Jones Average (year-to-date) are substantial FMR client holdings as well: Microsoft, Visa, Walt Disney, and Cisco (the fifth was American Express which FMR client portfolios do not own).

We wish you an enjoyable summer. As always, we encourage your thoughts, questions, and general feedback.

Sincerely,

Lee Todd Martha

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**The performance data included in this letter are not audited and have not been otherwise reviewed or verified by an outside party. While Five Mile River Investment Management, LLC endeavors to furnish accurate information, investors should not rely upon the accuracy or completeness of this information.*

***The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weighting it contributes to the S&P 500 Index performance. The index referenced <u>includes the dividends</u> issued by these 500 companies. This index is used for a comparison for FMR accounts.*

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