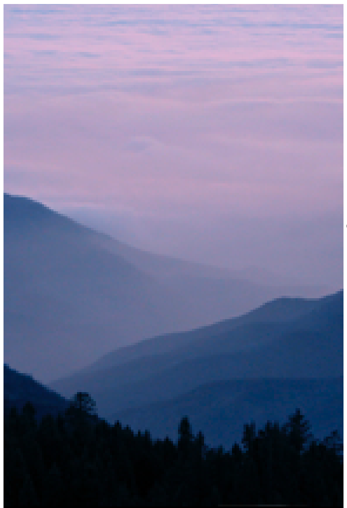
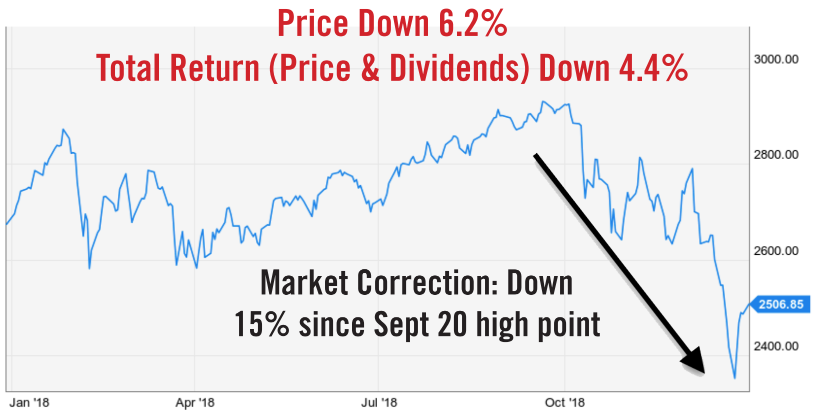


Quarterly Investment Report
December 31, 2018

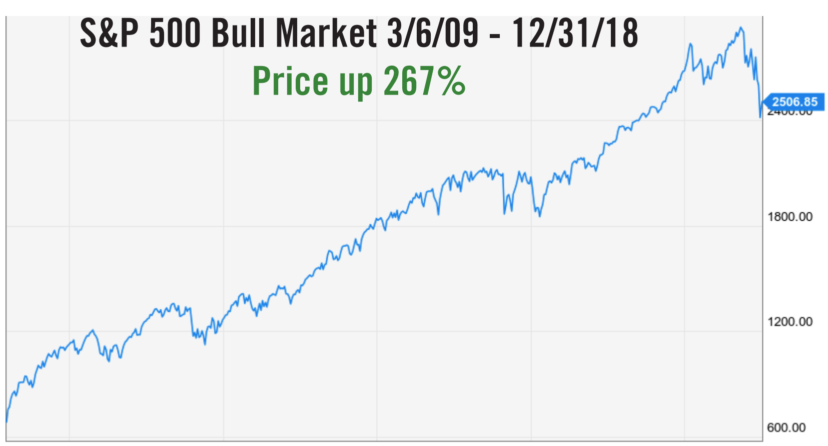
Dear Investor:

The stock market in 2018 was on a tear all year until the grinch stole Christmas in the 4th quarter. It's been a volatile year with record numbers of daily 1% or more market moves since the 2008 financial crises. Domestic markets in the last two weeks of December had some of their worst performing days in the last ten years. And then Santa made a splash appearance on the day after Christmas with a 5% gain in response to strong Christmas retail sales. Despite Santa's late showing, It's been a disappointing year for investors. But the second graph below should help put things in perspective as it shows how far we have come since the low point of March 6, 2009.

S&P 500 in 2018



The current U.S. economic expansion, that began in June 2009, is only 5 months away from breaking the previous record for longevity. That record expansion lasted 120 months from March 1991 to March 2001. An economic expansion ends and recession begins when the Gross Domestic Product (GDP) turns negative for two consecutive quarters as determined by the National Bureau of Economic Research (NBER). Since the second quarter of 2017 our GDP annual growth rate has remained higher than 2.0%. The second quarter of 2018 was likely the peak, at 4.2% growth, and the third quarter clocked in at a healthy 3.4% growth rate. All signs point to lower growth in 2019 (~2.4%) and 2020 (~1.5%) as the fiscal stimulus from the 2017 tax cut bill winds down.



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There is a possibility that, despite the higher deficit, economic growth can continue. That could be the case if companies shift gears and invest more in higher wages and capital improvements for productivity instead of focusing mostly on stock buybacks and dividend increases. The bugaboo is that companies are risk averse as they operate in an uncertain world with regards to global trade and interest rates. Analysts have taken earnings growth estimates for the fourth quarter in 2018 down to 12.4%, still a strong number, but considerably lower than the more recent quarters of 25% growth. Earnings estimates for the full year in 2019 stand at about 8.0%, putting the current price to earnings multiple on next year's earnings at only 14 times. That's an 11% discount from the average historical price multiple of 16 times earnings.

No one likes to see their assets fall in value, but we view this sell-off with some relief. We've been waiting and waiting for Godot and now that he's here, we can look forward to when asset prices revert back to average multiples and higher. However, the speed of this decline and a not yet excessively cheap price multiple, leads us to believe that there's more decline ahead of us before the next recovery appears. We will be pleased to be wrong if this correction is indeed over already. In any event, there's no need to panic, it's natural for the economy and stocks to go through these cycles. They don't last forever even though sometimes they feel like they do. And, if the correction turns into a bear market, not all bear markets precede economic recession; stocks often readjust during a growing economy.

Major Themes of 2018 and 2019: Global Trade and Higher Interest Rates

Global Trade

Since ancient times people have debated over whether trade brings benefits or harms to a nation. Over the years, economists have pointed out that free-trade is similar to technological progress, meaning that, although some narrow interests will be harmed, the overall benefits to society are substantial.

From the 1950's to the 1990's, the American middle class benefitted greatly from global trade. In the 1990's and 2000's, reacting to the end of the cold war with its new geopolitical realities, both Democratic and Republican administrations responded by trying to build a foreign policy that would promote economic prosperity. They assumed that the transition to an open, integrated global economy, including a rising China, would power global economic growth and create new opportunities for U.S. exports and investment. This push culminated in the United States' acceptance of China in the World Trade Organization (WTO) in 2001. China's cheaper labor force and a government keen to subsidize manufacturing costs where necessary, shifted the dynamic of global trade exponentially. While the lower cost of goods benefitted many Americans overall, manufacturing plants and jobs contracted. Global trade isn't the only cause of job losses over these past several decades; automation and technology innovations, as well as the Great Recession are among the major causes. The point is that President Trump is tackling these issues head on by introducing new tariff structures and trade agreements with China, Canada, Mexico, and Europe. Much of the proposals are unclear or still in negotiations and investors are faced with many unknowns. Investing in such a transitory environment is disquieting and is one cause of so much of 2018's stock market upheaval.

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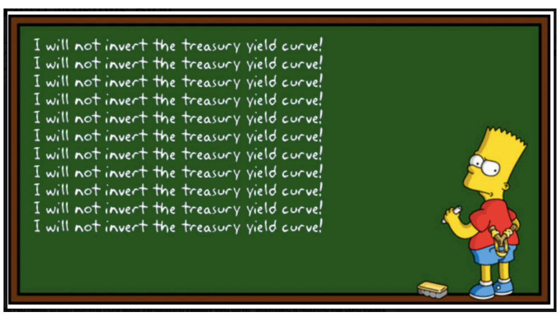
Higher Interest Rates

The Federal Reserve raised interest rates by .25% in December. That is the ninth increase since December 2015 and the fourth this year. The Fed modestly lowered its GDP and inflation projections for2019 and indicated the likelihood of only two interest rate increases in 2019 instead of the previous expectation for three increases. Also, they stated that the Fed's balance sheet contraction is on auto-pilot, meaning that as assets mature they will not be reinvested; this is another form of monetary tightening. The Fed isn't committed to any specific future action, though, and can and will change its plan in accordance with economic data.

The market did not respond well to the latest increase and the stated expectation for further increases in 2019. The fear is that since the economy is slowing, any additional tightening will bring on a recession. We are less worried about the Fed's actions on the short end of the curve hurting growth then we are about inflationary pressures causing longer dated bond yields to increase. Higher interest rates across the curve are one cause of recession. We are keeping a careful eye on inflation.

Is Recession Around the Corner?

Is recession around the corner…it depends how big the corner is. Recession is a natural part of the economic cycle, and our economy is likely slowing down, so it will come sooner or later; our best guess is by early 2020. We've experienced seventeen (including the Great Depression) recessions in our history, and the average duration has been eleven months. Every recession is unique and any number of things can bring it on. The economy can fall into recession when consumers lose confidence and demand falls, and businesses pull back in anticipation or response to falling demand. Typical causes for loss of confidence are runaway inflation, high interest rates, falling housing prices and sales, asset bubbles that burst, deflation, credit crunches. It's a fruitless parlor game trying to predict what will cause the next one.



One well-known predictor is when the Treasury bond yield curve inverts. In a normal yield curve shorter term bills and bonds yield less than longer bonds. Investors expect a lower return when their money is tied up for a shorter period. When the yield curve inverts, it's because investors have less confidence in the near-term economy and they demand more yield for a shorter-term investment than for a longer-term one. They perceive the near term as riskier than the more distant future.

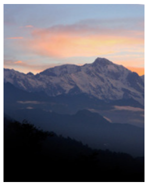
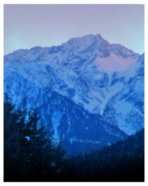
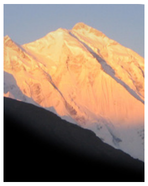
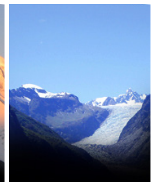
Adding to the inversion is when there is a flight to the safety of treasury bonds, and the greater demand for longer-term treasuries pressures those yields lower. Our yield curve has flattened considerably over the last several years. The spread between two and 10 year bonds is currently at .19% whereas the historical average is .95%. The yield curve is a good predictor of recession. Note, however, that though an inverted yield curve always precedes a recession, there are times when the yield curve inverts and recession does not follow. Hence the adage "yield curve inversions have predicted 12 of the last 10 recessions."

At Ascend we remain cautious in our investing, choosing stocks with good growth prospects, strong cash flow, reasonable debt, and high dividends. We believe sensible asset allocation to different asset classes can protect portfolios through the various market cycles.

Sincerely,

Ellen P. Le, CFA
President

We wish everyone a very happy and healthy New Year!

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A Few Thoughts on ASSET ALLOCATION

Asset Allocation: to diversify your assets among investment types, styles, and markets, is one of the few time-tested strategies for investors with long-term financial goals. Factors that go into determining a solid asset allocation plan are your age (years until you retire and life expectancy), annual income, annual expenses, near-term expected larger expenses, size of assets overall, expected income in retirement (social security, pensions), and tolerance for investment risk. Everyone has a unique financial situation which is fluid and requires frequent review.

There are many sub categories of assets within the three main financial asset groupings of Cash, Bonds, and Stocks. For example, when we think about bonds we can look to investing in short or long maturities, taxable or tax-free bonds, high yield riskier credit or lower yield high quality credits, domestic or international bonds. When we think about stocks we can list categories by market capitalization (size), growth or value characteristics, domestic or international listings, economic sector, and so on. There's also the hybrid assets of preferred socks and convertible bonds.

Each asset category has a unique historical performance (reward) and volatility (risk) profile. Though many of these profiles are similar, they differ to different degrees, and none of them are 100% correlated to each other. Also, these different performance and risk relationships change over time. When one asset zigs another zags, and they can be strategically combined to reduce risk in a portfolio. Asset allocation is even more important in the later stages of a business cycle…which is where we are today.

Historically, stocks have closed out calendar years with gains 73% of the time. Also, stocks cumulatively outperform bonds over time. But with that higher performance comes higher risk. Risk, more technically called standard deviation, is measured by historical observations of how investment returns deviate from their average return over a specific time frame. The higher the standard deviation, the higher the risk of an asset's return in any given year. Over the last 20 years, stocks (S&P 500) have returned 7.2% on average per year versus a return of 5.0% for bonds (10 yr Treasury Bonds). To the moderately conservative investor, that 2.2% spread isn't worth the 11.4% difference in risk between the two asset classes. Over this same time frame, stocks have a chance of rising or falling 14.8% each year on average versus the probability of a 3.4% move up or down for bonds.

Additionally, the law of numbers points to another benefit of diversification between stocks and bonds. Bonds temper the risk of decline in portfolios over time, and portfolios can more easily recover from shallower losses. If you lose 50% of your investment in one period, you need a 100% return in the next period to just get back to where you started. If you lose 25% of your investment in one period, you need a 33% return in the next period to get even. Lastly, if you lose 10% of your investment in one period, you need an 11% return in the next period to get even.

The bottom-line is that individual asset choices and asset allocation is complex. It is best left to experienced financial professionals who understand asset valuations and the risk/return relationships between assets in changing economic climates.

Law of Numbers - Examples

	Beginning Amount	Investment Return	Ending Amount
Year 1	$1,000	-50%	$500
Year 2	$500	100%	$1,000

	Beginning Amount	Investment Return	Ending Amount
Year 1	$1,000	-25%	$750
Year 2	$750	33%	$1,000

	Beginning Amount	Investment Return	Ending Amount
Year 1	$1,000	-10%	$900
Year 2	$900	11%	$1,000