RIVERVIEW QUARTERLY INSIGHTS

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FASTEN YOUR SEATBELTS. IT'S GOING TO BE A BUMPY YEAR

By: Christopher P. Cline, President & CEO

Because I write many of our newsletter and professional journal pieces, I'm constantly saving newspaper and financial magazine articles that look interesting. With all of the economic bouncing over the past two months, I just got done throwing out all of the articles from that period; they are already meaningless.

Some troubling facts, all reported in The Wall Street Journal in early January:

- The S&P 500 finished 2018 down 6.2% on a price return basis, its worst annual performance since 2008.
- The world's debt is the highest it's ever been, three times what it was 20 years ago, at almost $250 trillion.
- The spread between two- and ten-year yields on U.S. Treasury debt narrowed in December to less than 0.1%, before widening somewhat. If the yield on ten-year Treasuries drops below the two year yield, it creates an "inverted yield curve," a fairly reliable sign that a recession is coming.
- China is struggling with high levels of corporate debt, especially with state-owned enterprises. They're trying to do it without tightening monetary policy. As a result, growth has slowed significantly and efforts to stimulate lending have failed so far.
- Almost "half of U.S. finance chiefs believe the economy will slide into recession by the end of 2019," according to a recent Duke University/CFO Global Business Outlook.

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On the other hand:

- The January jobs report was terrific, and although unemployment ticked up very slightly (to 3.9% from 3.7%), it remains historically low.
- The Fed has announced that it will be more patient with raises in short term interest rates.
- U.S. households are paying 9.8% of their disposable personal income to stay current on all loans, including mortgages. This is around the record low in 2012, and below the average for the last 30 years, according to the Fed.
- Even though several analysts from companies like Citigroup and BMO Capital Markets have cut their forecast for where the S&P 500 will end the year, they still forecast positive growth, with an average forecast of around 2,900 (it stands at roughly 2,775 as I write this).
- The Dow Jones Industrial Average and the S&P 500 each have moved out of correction territory (a correction involves a drop in an index by 10% or more), and the stock market generally is off to its best start to a year in 13 years. So far, at least.

In short, the watchword for 2019 will be volatility. Trends in the Cboe Volatility Index (or "VIX"), a measure that tracks turbulence in the U.S. stock market, indicate that investors expect the market to bounce around at least in the near term.

Uncertainty like this might lead investors to think about going to cash, staying out of the market until it bottoms out and starts to recover. "Let's just go to cash now, wait until the recession hits and seems to be recovering, and then buy back in." Very common sense-y.

But this type of "market timing," though it sounds good, never works. Common sense also provides the answer: to successfully market-time, you have to be right twice. You have to know the best time to get out and the best time to get back in. Miss either moment (either the high when it's time to get out or the low when it's time to get in), and the strategy fails. It's a cliché, but it's true: if it were easy, everyone would do it (when in fact research shows that no one does it consistently).

The biggest reason that market timing doesn't work is the extremely small number of days in which market gains occur. According to Putnam Investments, $10,000 invested in the S&P 500 over the past 15 years would have grown to $30,000. However, an investor who missed the best ten days would have made only half that much, and one who missed the best 20 days would have made essentially nothing. All you have to do is get out five days too early and get back in ten days too late, and you've potentially missed half your gain. That razor-thin margin of error is why market timing doesn't work.

Or at least not quite. There are two very limited examples in which versions of market timing are appropriate. The first is rebalancing. For example, say you're invested 60% in stocks and 40% in bonds. If you simply held those assets through a bull market during which stocks outperform bonds, your portfolio over time might change, to where say 80% of its value might be in stocks. By doing nothing, your portfolio over time becomes more volatile than you intended. Rebalancing involves selling outperforming investment categories and buying underperforming ones, so that your portfolio stays within the risk profile you established. It has the added benefit of allowing you to buy the underperforming assets at a lower price.

The second example of appropriate market timing applies to people who've retired. If you are living off your investments, a time like this (with an historically long bull market and increased volatility) is the perfect time to make sure you have enough cash on hand to weather a market downturn without having to sell investments in a down market for living expenses.

So in the end, all of this volatility is, for the long-term investor, meaningless. Just buckle up.

SPOTLIGHT ON PLANNING

PLANNING: TURN OFF, TUNE OUT, LIVE BETTER

I have grown sick of management books, self-help books and biographies of overachievers. (This does not stop me from reading them, however.) And I don't think I'm alone. The September 29th edition of The Economist featured an article called "Executive Privilege – The Annoying Habits of Highly Effective People." The article observes that readers of such tomes are "expected to marvel at the stamina of Tim Cook, for example . . . , [who] rises at 3:45am to deal with emails." In fact, those readers are probably expected to emulate such a work ethic.

This, the author shows, is fallacious. If Mr. Cook rose three hours later, he probably still could deal with emails (and his employees' lives would be much easier). If hard work and long hours invariably led to success, then those forced to hold down two jobs should be rolling in wealth. And there are actual drawbacks to canonizing such behavior. It may show the executive as being out of touch (according to the article, Jeff Bezos likes to putter in the morning and have breakfast with his kids, an option not available to Amazon employees who hold early morning shifts). Worse, the executive's eccentricities can actually damage the business if they become embedded in the culture.

I was reminded of this article when I read a second article a week later in the October 6th/7th edition of The Wall Street Journal that pointed out the drawbacks of our "always on" work culture. Titled "Far From the Madding Co-Workers," it observed that employees average 8 hours a week answering emails after leaving work, and that 30% of men and 23% of women regularly bring work home (similar percentages admitted to working on vacation). The author observes that:

"Always-on is the default work setting for most of us. Ubiquitous smartphones, slim computers and innovative apps make every response a snap – quicker, easier, seemingly less painful. It just takes a second, right? But these rapidly accumulating seconds are just technology's version of death by 1,000 cuts, expanding the workday's boundaries until it seamlessly blurs with the rest of civilian life."

The result is increased stress, compromised sleep habits and decreasing effectiveness during our actual work day.

Our own psychology as well as the IT industry's business model reinforces this bad behavior. We're social animals by nature; we want to be seen as part of the pack, as fitting in. If everyone else is always connected, then maybe we won't be perceived as "part of the club" unless we are too. And we're always afraid of missing out. Further, all the buzzes, dings, whistles and tweets that your phone throws at you trigger a Pavlovian, dopamine-fueled response that you feel you HAVE to respond to. (And definitely if it's tied to your boss's quirky Circadian rhythm.)

The author of the Journal article offers some high (and low) tech solutions:

- Google Calendar has a "Working Hours" function that allows you to painlessly reject, with an "out of office" reply, invites for calls or meetings that are outside of certain time parameters.

- Apple's iOS 12 has enhanced "do not disturb" features that allow for quiet notifications and withholding of communications until you physically leave a spot (like home or a restaurant). It also allows you to toggle on auto-replies. Like "I'm sorry; I'm busy right now. I'll reply when I get back." Or perhaps something more tactful.
- Apple iPhones also have a VIP inbox feature, allowing you to "tweak notifications so your screen only flashes when you receive emails from those you deem worthy." (You do so by tapping "i" next to "VIP" in your mail app.)
- The most effective tool might be to turn off or "don't allow" notifications at the time you download an app. This allows your phone to serve you when you want to look at it, rather than you serving your phone by responding to every noise or vibration it makes.
- The brave of heart can simply not install work apps on your phone at all, or (for the truly dorky) have separate personal and work phones, so that you can turn the latter off while still watching cat videos on the former (this was my favorite trick when Blackberries were still a thing; I still miss the Work Blackberry/flip-phone tandem).

The danger of this last tip points to what may be the most effective (if hardest to implement) tool of all: changing the work culture so that no one feels the pressure to be at work 24/7. This issue is addressed in a book called, "It Doesn't Have to be Crazy at Work," written by the founders of Basecamp, a Chicago software company. Basecamp employees have shorter hours in the summer than in the winter, they get three weeks' vacation every year and a month-long sabbatical every three years. The authors also have some helpful observations:

- Beware of companies that claim to be a "family;" it just blurs the line between home and office.
- Beware of open floor plans; instead, follow "library rules" that require conversations to be kept to a whisper.
- Meetings should be frowned upon: "Eight people in a room doesn't cost one hour, it costs eight hours."
- Don't expect or demand immediate responses. Employees who have more time to respond to questions usually come up with better answers.
- "Goals are fake." By which the authors mean that completion dates typically add needlessly to stress when they consist of meaningless numbers and ever-changing requirements.

Not all of these observations can be implemented at every company. Smaller, more homogeneous businesses (like software companies and law firms) can easily implement such changes, while they may be inappropriate for larger companies with a broader range of employees. And some people are paid to work long hours. Partners in law firms, accountants during tax season and CEOs, for example, all are expected to work harder than the people who report to them.

But every company can implement and live by cultures that say, in effect, "work hard while you're here, and then leave your work at the office." It's time to stop worshiping workaholics, but rather cherishing our families and friends instead.

ECONOMIC SNAPSHOT

MARKET SUMMARY – 2018 INDEX RETURNS

Markets experienced periods of heightened volatility over the course of 2018, but it was especially pronounced during the fourth quarter. High-quality fixed income like government bonds enjoyed a flight-to-safety rally during this time, helping to push the primary bond indices into positive territory for the year.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
2018	**STOCKS**				**BONDS**	
	-5.24%	-14.09%	-14.58%	-5.90%	0.01%	3.17%
Since Jan. 2001						
Avg. Annual Return	7.6%	5.8%	13.1%	10.1%	4.5%	4.4%
Best Year	33.6% **2013**	39.4% **2003**	78.5% **2009**	37.4% **2006**	10.3% **2002**	8.8% **2014**
Worst Year	-37.3% **2008**	-43.6% **2008**	-53.3% **2008**	-45.7% **2008**	-2.0% **2013**	1.2% **2013**

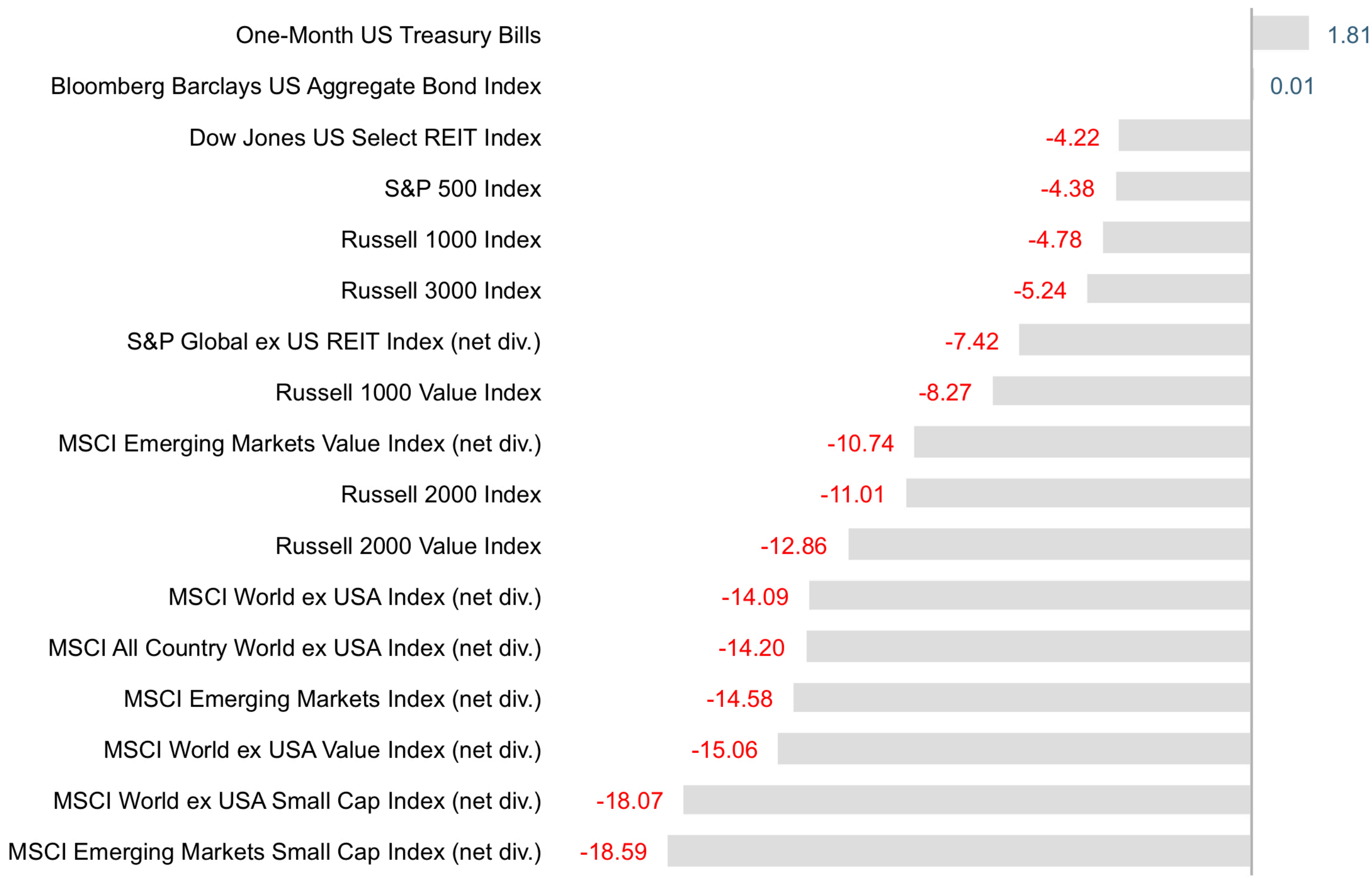
See important disclosure information

WORLD ASSET CLASSES
2018 Index Returns (%)

Equity markets around the world posted negative returns for 2018. Looking at broad market indices, the US outperformed non-US developed and emerging markets.

Value stocks were positive vs. growth stocks in emerging markets but negative in the US and non-US developed markets. Small caps underperformed large caps in the US, non-US developed, and emerging markets.

REIT indices outperformed equity market indices in both the US and non-US developed markets.



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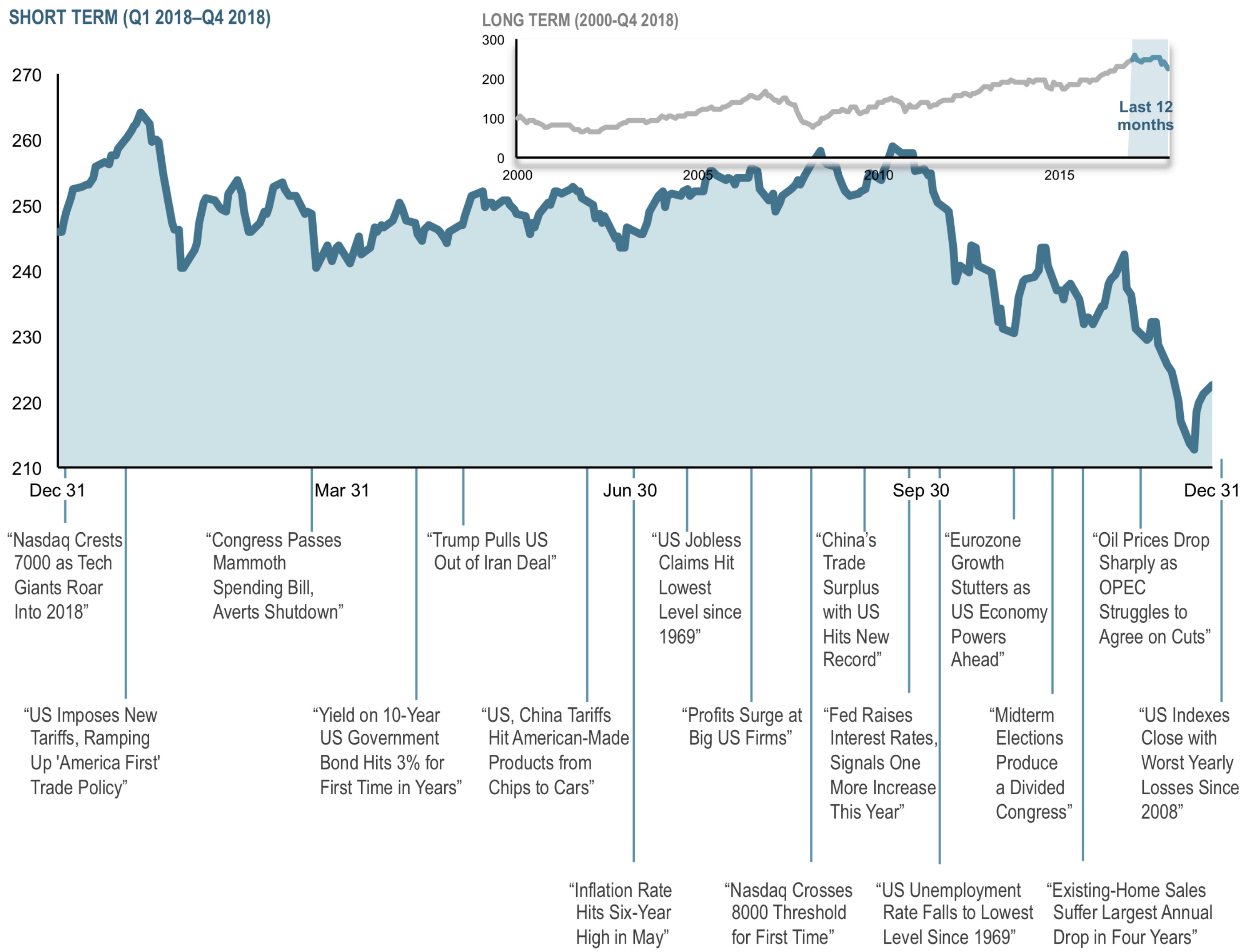
WORLD STOCK MARKET PERFORMANCE

MSCI All Country World Index with selected headlines from past 12 months

These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.



Graph Source: MSCI ACWI Index [net div.].
See Important Disclosure Information.

HELLO, GOODBYE

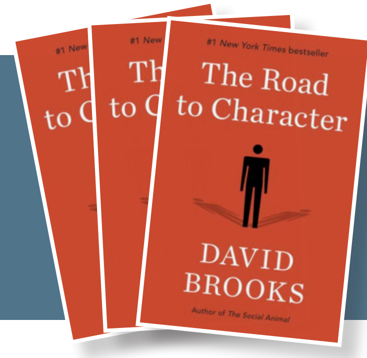
As many of you know by now, Chris Butler left Riverview Trust Company earlier this year to be close to his two children, who are both attending school in Virginia. Characteristic of Chris, he didn't want a big send-off or a big announcement about his departure. But his absence has definitely left a hole in our company's fabric: Chris was our head of investments for nearly 20 years (and wore many other hats as well). He was our first employee, and played an integral role in starting the company with John Karas and Lori Hawkins in 1999. We really miss having him with us, but wish him all the best in this move into his next 'act.'

The good news is that this fall we added Joline Ortiz to our team as our new Senior Investment Officer. Joline has over fifteen years of investment management experience, starting her career at PIMCO, one of the largest institutional fixed income money managers in the world. She applied her early experiences in institutional money management to comprehensive wealth management for trusts, high net-worth individuals, and non-profits. This has been the area in which she has been focused for the last eleven years, having worked at several local financial institutions in Oregon and Washington before joining us here at Riverview.

Joline is a Chartered Financial Analyst (CFA) charter holder, which is a globally recognized professional designation for investment management professionals. She holds a Bachelor of Science degree in Business Administration with an emphasis in Finance from the University of Southern California (Fight On!).

Working with Maggie Traverso, who recently became our Private Wealth Director, and the rest of our investment committee, Joline will direct our investment philosophy, goals and objectives. We really enjoy working with Joline, and we know you will too!

BOOK
REVIEW



THE ROAD TO CHARACTER

By David Brooks

"Character" has become a loaded word, a political volleyball. Supporters of the Left and the Right both shout down their opponents for lacking it, while desperately trying to hide their own shortcomings. Yet it has always been hard to define, a "know it when I see it" kind of term. In The Road to Character, David Brooks has done a pretty good job of defining it through historical example, and even provided a roadmap for deepening it.

Mr. Brooks begins in his introduction by distinguishing between "resume virtues" and "eulogy virtues," those that help define a person's external success versus those that exist at the core of his or her being. He illustrates the distinction by comparing the two different accounts in Genesis of Adam (first spelled out in a 1965 book, Lonely Man of Faith). Mr. Brooks defines "Adam I" as exemplifying "the career-oriented, ambitious side of our nature." "Adam II," on the other hand, "wants to obey a calling to serve the world." He asserts that we live in a culture that nurtures the first and neglects the second. He asserts that our society "encourages us to think about how to have a great career but leaves many of us inarticulate about how to cultivate the inner life." This turns us into shrewd, crafty creatures that are adept at playing the game, but who think that everything is a game.

The book is broken into three sections: in the first, he sets out the Adam I/II problem more clearly; in the second (the longest), he provides examples of many historical figures who, through trial and hardship overcame their own shortcomings and became men and women of character; and in the third, he sets out ways a person can deepen his or her character, drawing on those historical examples. The first section recasts the Adam I/II distinction as the clash between the "Little Me," the self-deprecating perspective of the "Greatest Generation" that put the good of the nation and the world ahead of that of the individual; and the "Big Me" of more recent generations (especially Baby Boomers) who celebrate self-esteem, celebrity and ultimately narcissism. While Mr. Brooks does point out the social injustices wrought by those of earlier generations, it can be a little hard to hear about the moral superiority of a society that was overtly racist, sexist and (in the case of the Facists) genocidal. For all of the hyperbole, however, his point is a good one.

The second "section" makes up the bulk of the book. It examines the lives of some famous and (unfortunately) formerly famous people who overcame their societal and personal limitations to become contributors of character. From the artistic (George Eliot, Samuel Johnson and Michel de Montaigne), to the politically active (Frances Perkins, A. Philip Randolph and Bayard Rustin), to the military (Dwight Eisenhower and his mother Ida, and George Marshall) to the religious (Dorothy Day and Augustine), Mr. Brooks provides example after example of important people who have grappled with their own inadequacies, hard backgrounds and demons to become people of character, people who have grown and contributed through that growth.

This summary of great people is not only humbling and inspiring, it also filled in some holes in my own education. I knew nothing of Frances Perkins, the woman who grew up in relative privilege and became a champion of working people in Franklin Roosevelt's administration. I also didn't know that Bayard Rustin was the organizer of the March on Washington that gave birth to Dr. Martin Luther King's "I Have a Dream" speech. Dr. King is the one who is remembered, but Rustin made it happen (which is exactly Mr. Brooks' point). And it was great to hear again about the contributions of George Marshall, which (even though partially memorialized in the "Marshall Plan" for the reconstruction of Europe) are often overlooked. As a temporary resident of Vancouver, Washington, he's something of a local hero.

The third and concluding section occupies only the last 30 of 270 pages, but it is the most compelling. Mr. Brooks describes the road to character as it must be followed in the age of selfies and apparent meritocracies. (In the course of doing so, he even takes on Dr. Seuss: "Oh, the Places You Will Go" is nothing more than the epitome of the "meritocratic mentality.") He sets out a "humility code," encapsulated in 15 propositions. Here are some of the most important:

- "We don't live for happiness, we live for holiness." We have the responsibility to become more moral over time.
- "In the struggle against your own weakness, humility is the greatest virtue." (And, conversely, "Pride is the central vice.") We are all underdogs in the struggle against our own weakness.
- "No person can achieve self-mastery on his or her own." We need "redemptive assistance" from somewhere: family, friends, rules, traditions, even God.

These are sobering messages, inspiring but ultimately challenging and not very "touchy-feely."

The Road to Character, in the final analysis, is a book to be read slowly and assimilated. Like another book reviewed in this newsletter (Make Your Bed by Admiral William H. McRaven), it challenges rather than comforts. But in this age of fake news and celebrity, that may not be a bad thing.

IMPORTANT DISCLOSURE INFORMATION

INVESTMENT AND INSURANCE PRODUCTS ARE: NOT FDIC Insured | NOT Bank Guaranteed | MAY Lose Value.

Past performance is not a guarantee of future results. Asset allocation does not guarantee better performance and cannot eliminate the risk of investment losses. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citi WGBI ex USA 1-30 Years [Hedged to USD]).

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