FIRST QUARTER 2019

Beyond the Benchmark

Aldrich℠ WEALTH LP

About Aldrich Wealth

At Aldrich Wealth, we partner with you on your financial journey by assuming the role of personal financial advocate. We help you identify your financial needs and goals, while also developing a sound strategy that will enable you to realize your dreams. We guide you through risk assessment, development of strategies, and ultimately implementation of the plan we craft together. This will allow you to focus more energy on living a great life.

OUR PEOPLE

Our average advisor has over 10 years of experience in wealth management, financial planning and tax planning. Although each client's goals are unique, with our decades of experience, there is a good chance that we have helped someone through some of the same complexities for their personal financial life or their corporate retirement plan needs.

OUR APPROACH

At Aldrich Wealth, we recognize that investment performance is only one piece of a comprehensive strategy. We take a team-based approach to serving clients. For individuals, we include investment advisors, financial planners and tax professionals to provide a holistic view of each situation.

OUR STORY

Aldrich Wealth was founded in 1998 as an affiliate of parent company Aldrich CPAs + Advisors. After working with business owners for decades, we noticed a trend in our accounting firm clients selling their businesses and asking for assistance in investing the proceeds.

QUARTERLY MARKET SNAPSHOT

	VALUE	CORE	GROWTH
Large	11.93%	13.65%	16.10%
Medium	14.37%	16.54%	19.62%
Small	11.93%	14.58%	17.14%

This matrix illustrates U.S. equity benchmarks provided by Russell with the exception of Large Core, which is the S&P 500 Index.

	VALUE	CORE	GROWTH
Global	9.90%	12.18%	14.48%
Non US	7.92%	9.98%	12.04%
EM	7.85%	9.91%	12.04%

This matrix illustrates international equity benchmarks provided by MSCI.

	SHORT	INTER	LONG
Gov	0.99%	2.10%	4.64%
Corp	1.83%	5.14%	7.97%
Hi-Yield	5.69%	7.40%	9.43%

This matrix illustrates the fixed income benchmarks provided by Barclays and B of A Merrill Lynch.

Market Commentary

Executive Summary

Equity markets accelerated to begin the New Year as a dovish tone from the Federal Reserve, robust earnings and relatively tranquil economic backdrop rejuvenated investor sentiment. All told, domestic equity markets, as measured by the S&P 500 Index, turned in its best quarterly advance in a decade, up 13.6%. Non-U.S. markets, as measured by the MSCI EAFE Index, added 10.0% as ongoing BREXIT negotiations and weaker than expected economic reports from Japan and Germany tempered relative results. Emerging markets, as measured by the MSCI Emerging Markets Index, increased 9.9% led by China's 17.7% increase. The Fed kept rates unchanged during the period and lessened their expectations surrounding future rate hikes in response to a deceleration of economic data and waning inflationary pressure. The yield on the benchmark 10-year Treasury fell sharply from 2.69% at the end of trading the previous quarter to 2.41% at quarter-end.

Domestic Equities

Patient investors were quickly rewarded as a challenging fourth quarter was followed by the best quarter in a decade. Domestic equity markets posted their best January results since 1987. The market rise was largely indiscriminate, as every sector of the S&P 500 Index turned in positive results. Small and mid-cap stocks outpaced large caps and growth bested value. Technology, Real Estate and Industrials were the top performers while Health Care, Financials and Utilities lagged. S&P 500 Index companies posted earnings growth of approximately 13% in the fourth quarter. In total, nearly 70% of the companies beat earnings expectations while 60% reported better than expected revenue figures. In 2018, earnings increased 20%, the highest annual earnings growth rate for the index since 2010.

International Equities

Non-U.S. markets pushed higher despite waning economic data, ongoing BREXIT concerns and a persistently strong U.S. dollar. The MSCI EAFE Index increased 10.0% in the first quarter led by strength across Europe. Emerging market stocks posted a strong return for the quarter, but remained heavily influenced by escalating trade concerns and a stronger U.S. dollar. The Fed's dovish comments and the decision to suspended tariff hikes on $200 billion of Chinese goods, together with ongoing government support for the Chinese domestic economy, boosted Chinese equity returns over 17%.

Fixed Income

The Barclays Universal Bond Index ended the first quarter up nearly 3.3% as yields continued to drop. The dovish pivot from major central banks proved particularly significant with markets having grown nervous over the prospect of increased monetary tightening in the U.S. The Fed and the ECB both indicated they wouldn't likely hike rates in 2019. The U.S. 10-year Treasury yield fell over the quarter reaching its lowest level since 2017. In March, the three-month Treasury bill yield rose higher than the 10-year yield. The yield curve inversion underlines the growing caution among investors around economic growth and inflation prospects.

Economy

The U.S. economy, as measured by the change in the Gross Domestic Product, increased 2.2% during the fourth quarter, well below the 3.4% advance in the prior quarter. In 2018 the economy advanced 2.9%, the most since 2015. The corporate tax cuts were implemented in 2018 and this boosted growth, but the outlook looks more modest going forward. U.S. unemployment fell to 3.8% and wages in the U.S. continued to climb, but overall inflation remains below the Fed's 2.0% target and has given the Fed the ability to potentially stop hiking rates.

Market Outlook

Stocks are off to a strong start and are well positioned to outperform bonds in 2019 as we anticipated. Economic growth is poised to slow modestly, particularly among developed markets, and should dampen equity returns for the remainder of the year. Stable growth in emerging markets should support growth globally and there is minimal chance of a recession. The Federal Reserve is becoming increasingly data dependent and is less likely to hike rates in 2019 as global growth is moderating and inflation has leveled off. Bond yields have declined in response to a more dovish Fed, but incremental gains from falling yields seem unlikely after the recent decline. Slower growth in the U.S. relative to the rest of the world and stable interest rates will likely prevent the U.S. dollar from rising significantly. International equities are trading at notable discounts to domestic stocks and a stable or weaker U.S. dollar could contribute to better relative returns for international stocks, particularly in emerging market. Expect periodic bouts of volatility as trade disputes, political instability, growth concerns, and the path of interest rates contribute to heightened investor uncertainty.

Should a “Back Door” Roth IRA Be Part of Your Financial Future?

Elizabeth Hutchison, CPA/PFS, CDFA™

As another tax season draws to a close, we field a number of requests from clients for tax projections for the current year and long-term financial planning. Since Roth Individual Retirement Accounts (IRAs) regularly factor into that equation, it’s a good time to review some guidelines regarding these investment vehicles.

Anyone with earned income, including alimony, is generally eligible to contribute to an IRA. Earned income generally excludes interest, dividend, capital gain income, and retirement account distributions. Contributions to a traditional IRA can reduce current tax obligations for taxpayers who are not covered by an employer’s plan and/or whose income falls below certain thresholds. Generally, distributions from traditional IRAs create taxable events and are mandatory after age 70½. Contributions to Roth IRAs are not tax deductible; however, qualified distributions from these accounts do not create taxable events. In addition, Roth IRAs are not subject to mandatory distributions.

Direct contributions to Roth IRAs are available in 2019 to taxpayers with modified adjusted gross incomes of $121,999 or less for singles and $192,999 or less for joint filers. The maximum contribution is the lesser of your earned income or $6,000 (or $7,000 for taxpayers who are 50 and older) assuming other limits and exclusions do not apply. There is no income limitation associated with a conversion of a traditional IRA or other qualified retirement plan to a Roth IRA.

High income individuals have a “back door” through which they can gain access to this retirement investment option. This is optimal for Individuals who do not have a traditional IRA and their only other retirement contributions go through a qualified retirement plan (most often through an employer).

The individual can open a traditional IRA without taking the tax deduction (for which they may not be eligible anyway) and then convert these assets to Roth IRAs.

This is optimal for clients without other IRAs because of the basis pooling rule. When determining the amount of post-tax dollars allocable to a distribution or conversion, the total value of all traditional IRAs is pooled and the basis (or pretax dollars) is allocated based on the total withdrawn from the traditional IRA to the total balance of all traditional IRAs. There are some strategies that could mitigate the negative impact of this pooling rule, but those strategies must be in place before making the conversion.

Clients seek our counsel when considering a conversion of a traditional IRA to a Roth IRA. Taxes are due on converted assets to the extent that contributions were deemed made with pre-tax dollars. For contributions made with post-tax dollars, taxes are due on asset appreciation based on the fair market value as of the conversion date. With that in mind, here are a few of the circumstances in which conversions make sense:

- The taxpayer's marginal tax rate for the current year is significantly lower than the expected rate when assets will be withdrawn. It could make sense to bite the tax bullet now. This circumstance might arise for business owners or variable compensation workers whose revenue streams are unusually low in the current period. Conversion may also make sense for people who are between jobs or careers.

- Taxpayers own stock in their traditional IRA that has declined in value, and they have a reasonable expectation that it will rebound. They transfer the stock into a Roth IRA at the depressed value and pay taxes on the fair market value at the time of transfer (less amounts related to post-tax contributions). According to the current law, any subsequent asset appreciation will accrue without a future tax liability. In essence, Roth IRA conversions can be the "lemonade" that investors make from a "lemon" stock market.

- The taxpayer's long-term financial/estate plan suggests that a Roth IRA is a better investment vehicle than a traditional IRA. When taxpayers have other funds and have the wealth and flexibility to simply not touch the retirement funds this strategy fits. Since traditional IRAs have mandatory distributions starting at age 70½, a Roth IRA affords far more control over these funds. It also allows beneficiaries further longer growth and to receive tax free distributions once certain tests are met. Inherited traditional IRA received by a non-spouse beneficiary would have required minimum distributions at any age.

The Tax Cuts and Jobs Act brought rule changes to Roth IRAs that you need to be aware of. As a result of the changes, under the new rule, you can no longer roll back a Roth conversion in the following year. In other words, Roth conversions can no longer be re-characterized, so if you weren't aware of the pooled basis rule or the Roth loses value, you're locked in to the results.

Still have questions? Contact us to discuss your individual circumstances. We'd be happy to have our advisors help you find the answers you seek.

ELIZABETH HUTCHISON CPA/PFS, CDFA™

Senior Tax Manager

Elizabeth goes beyond compliance and is a problem solver and strategic tax planner. Her expertise allows her to help clients navigate the complex nature of tax laws. With her most recent designation as a Certified Divorce Financial Analyst, she has the ability to help her clients understand their financial picture during significant life changes.

Stepping Out of My Comfort Zone

By Sydney Duimovich

I've been told on several occasions that life begins at the end of your comfort zone. As a relatively risk-averse individual, I used to find that statement laughable; when given a choice, who actually chooses discomfort? Given my bias towards the familiar, it should come of little surprise that I chose the smooth transition out of UC Berkeley and down the traditional path. I moved across the Bay Bridge to San Francisco to work for a Big Four accounting firm as a consultant, one of the ABC's (accounting, banking, and consulting) Haas School of Business is so well known for producing.

The role helped this fresh-faced professional discover two crucial things. First, helping people solve problems and reach their goals is like coffee for my soul - a reason to wake up each morning. Second, I could live the rest of my life without analyzing another Balance Sheet. Even so, the network of friends and colleagues I had in the bay and at work made growing roots there easy to do.

Occasionally, though, we all experience life events that shake our foundation and break down our carefully constructed comfort zones, forcing us to reassess our priorities. Last year, I experienced one of these events. Instead of pinning bridal gowns to my Pinterest Board, for the first time in the better part of a decade, I realized that if I wanted a side of fries, I had to order them myself. Luckily for me, this shock wave didn't collapse my San Francisco Marina apartment like the earthquake of '89, but it did provide the unique opportunity to evaluate my circumstances, identify aspirations I'd put on hold, and make some bold changes to get back on track.

Within a matter of weeks, sunny San Diego went from a far-off dream to a reality. My employer even approved an office transfer so I could work with the same team from my new town, but as I weighed my options, it quickly became apparent that the trajectory of the comfortable job would not fulfill my ambitions. As a result, I opted for a career change and accepted a position as a wealth associate in Aldrich's Carlsbad office.

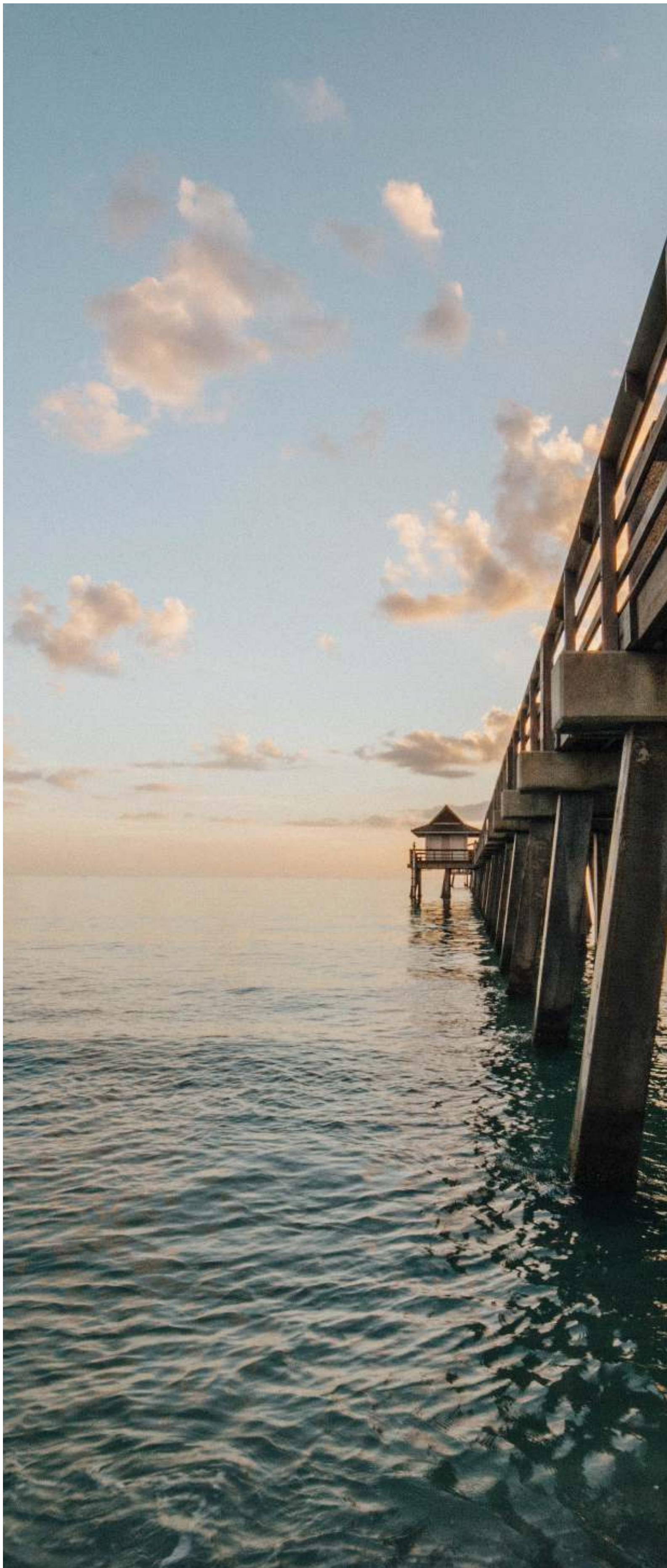
What made it so effortless to scribble my signature on the dotted line of the employment contract had everything to do with the people here. Each individual had a distinct story of how they'd come to call Aldrich home, but across the board, one story element was consistent. Their eyes lit up describing what they do each day and the impact their clients have on them. The sense of reward they receive using their skills, whether financial planning, investment acumen, or tax knowledge, to protect and enhance the financial future of their clients, is evident without a doubt. The line of work, in conjunction with the clear personal investment in the successes of clients, perfectly fit my "ideal" work environment.

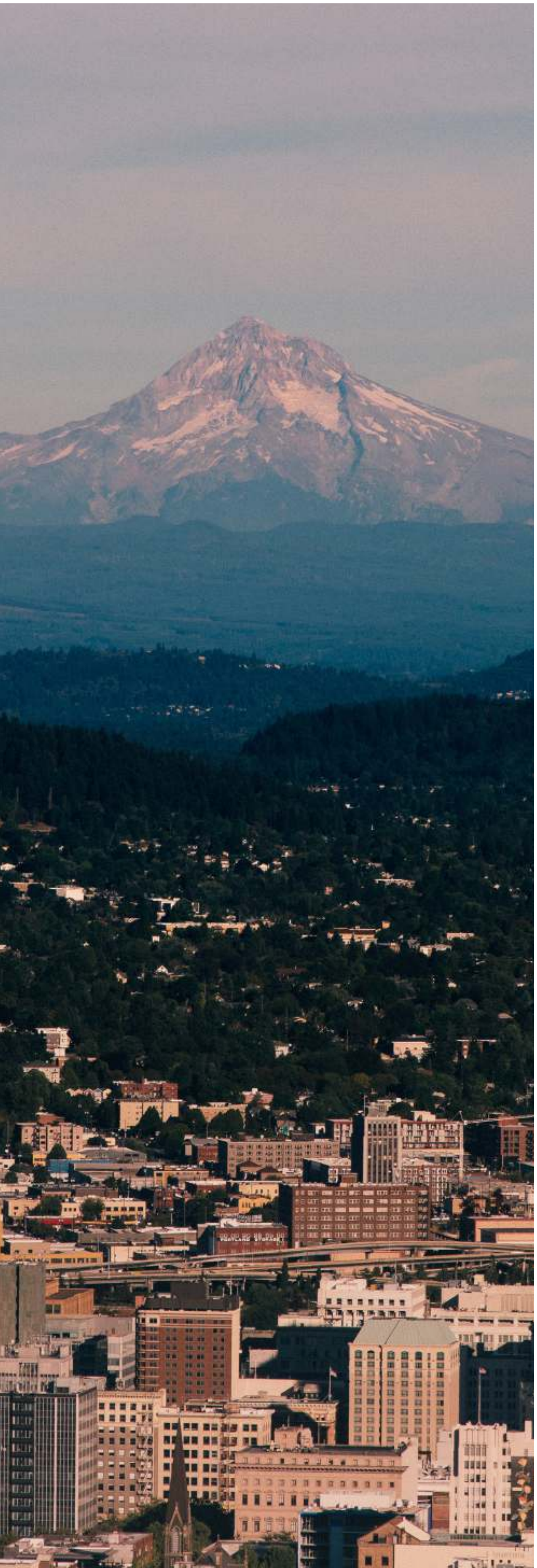
Six months into life as an associate, I can say with certainty that my leap of faith into the unknown paid off. I've had the chance to meet many Aldrich clients and learn about their families, their goals, and their success stories. Daily, I'm inspired by the dedication and drive that set them up for financial certainty in an often volatile world. It's a privilege to help clients increase that certainty by identifying the appropriate level of portfolio risk necessary to meet their financial targets, in the same way each of us has to identify the personal risks worth taking every day to get where we want to be, and I look forward to a long career of doing just that.

By Sydney Duimovich

Wealth Associate

Sydney joined Aldrich Wealth in 2018. Prior to joining the firm, Sydney spent two years in the Accounting and Reporting Transformation department at a Big Four firm, where she delivered finance and accounting process improvement solutions to clients in the healthcare and technology spaces. Sydney has experience working closely with C-suite executives, accounting controllers, and various major stakeholders in Fortune 500 companies.





Events + Awards

COMING SOON - SUMMER 2019

Fiduciary 2.0

1st Floor, Meadows Room - 5300 Meadows Rd.
Lake Oswego, OR 97035

Please join us to gain a deeper understanding of your duties to plan participants as a Fiduciary under ERISA's Fiduciary standards.

Our team will discuss the following topics:

- Operating successful retirement plan committees
- Monitoring service providers and benchmarking fees
- Fiduciary vs. "non-Fiduciary" functions in a plan
- Examples of prudent processes
- ERISA Fidelity Bond vs Fiduciary Insurance
- How to mitigate Fiduciary risk

For more information please email info@aldrichadvisors.com

PORTLAND BUSINESS JOURNAL TOP 20 MOST ADMIRED FINANCIAL SERVICES COMPANY IN PORTLAND

The Portland Business Journal recently ranked Aldrich Wealth LP 20th on their list of the Most Admired Financial Service Companies in Oregon.

"This recognition validates our commitment to building long-term partnerships with our clients based on trust, shared values, and sound wealth management advice," said Aldrich Wealth President Scott Barchus. "We have an outstanding team of advisors who consistently provide our clients with the best opportunity to achieve their financial goals."

According to the Portland Business Journal, the rankings for the list were generated through a Survey they sent to over 3,000 CEO's in Oregon and Southwest Washington. The CEO's were asked to select three companies that they most admired in eight different industries. Over 500 leaders responded to the survey. Any business with a significant presence in the Oregon and Southwest Washington region was eligible for consideration.

Aldrich Locations

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PASADENA
626.397.4600

PORTLAND
503.620.4489

SALEM
503.585.7774

SAN DIEGO
619.810.4940

About Aldrich Wealth

Aldrich Wealth LP is an investment advisor registered with the U.S. Securities and Exchange Commission. Aldrich Wealth provides wealth management services where it is appropriately registered or exempt from registration and only after clients have entered into an Investment Advisory Agreement confirming the terms of the client relationship, and have been provided a copy of Aldrich Wealth ADV Part 2A brochure document. The information contained in this document is provided for informational purposes only, is not complete, and does not contain material information about making investments in securities including important disclosures and risk factors. Under no circumstances does the information in this document represent a recommendation to buy or sell stocks, bonds, mutual funds, exchange traded funds (ETF's), other securities or investment products.

Recognized as Financial Times Top 300 Financial Advisors

The 2015 Financial Times Top 300 Registered Investment Advisors is an independent listing produced by the Financial Times (June, 2015). The FT 300 is based on data gathered from RIA firms, regulatory disclosures, and the FT's research. Applications were solicited from more than 2,000 independent RIA firms that had $300 million or more in assets. The 630 RIA firms that applied were then graded on six criteria: AUM; AUM growth rate; years in existence; advanced industry credentials; online accessibility; and compliance records. To make sure the list was relevant to Financial Times readers, the paper required that no more than 75% of a practice's assets be institutional. Only those who completed an application were considered. Neither the RIA firms nor their employees pay a fee to The Financial Times in exchange for inclusion in the FT 300. This is the second annual FT 300 list, produced independently by the FT in collaboration with Ignites Research, a subsidiary of the FT that provides business intelligence on the investment management industry.

Recognized Five Star Professional's "Five Star Wealth Managers"

Five Star Professional, as a third-party research firm, identified pre-qualified award candidates based on industry data and contacted all identified broker dealers, Registered Investment Advisor firms and FINRA-registered representatives in the Portland area to gather wealth manager nominations. Award candidates were then evaluated against 10 objective eligibility and evaluation criteria: 1) Credentialed as an investment advisory representative (IAR), a FINRA-registered representative, a CPA or a licensed attorney; 2) Actively employed as a credentialed professional in the financial services industry for a minimum of five years; 3) Favorable regulatory and complaint history review; 4) Fulfilled their firm review based on internal firm standards; 5) Accepting new clients; 6) One year client retention rate; 7) Five-year client retention rate; 8) Non-institutionalized discretionary and/or nondiscretionary client assets administered; 9) Number of client households served; 10) Educational and professional designations. 1,107 wealth managers in the Portland area were considered for the award. 224 were named 2015 Five Star Wealth Managers which represents approximately 21 percent of the total award candidates of the area. Wealth managers do not pay a fee to be considered or placed on the final list of 2015 Five Star Wealth Managers. The Five Star award is not indicative of the wealth manager's future performance. For more information on the Five Star Wealth Manager program and the research/selection methodology, go to www.fivestarprofessional.com/wmsummaryandresearch.pdf. To view AKT Wealth Advisors, LP award document, go to http://www.pageturnpro.com/Five-Star-Professional/64888-PORWM15-Heather-Wonderly/puredefault.html.

Aldrich WEALTH LP

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