“When asked “What thing about humanity surprises you the most?”

the Dalai Lama answered:

“Man... Because he sacrifices his health in order to make money. Then he sacrifices money to recuperate his health. And then he is so anxious about the future that he does not enjoy the present; the result being that he does not live in the present or the future; he lives as if he is never going to die, and then dies having never really lived.”

Always remember to live in the present and appreciate all the wonderful people that are a part of your life!
**Ted’s Event Recommendations**

**Feb 15 - Feb 17 2019 - Eagle Ridge Winter Carnival**

Eagle Ridge Resort & Spa
444 Eagle Ridge Drive, Galena, IL 61036
Additional Information: 815-777-5000

**March 9 2019 – Hops & Props**

EAA Aviation Museum
3000 Poberezny Rd - Oshkosh, WI 54902
Additional Information: 920-426-4800

**April 27, 2019 - Michiana Wine Festival**

Headwaters Park
333 S Clinton, Fort Wayne, IN 46802
Information: 260-442-5520

**June 1, 2019 - Packers Charity Softball Game**

Neuroscience Group Field at Fox Cities Stadium
2400 N Casaloma Drive, Appleton, WI 54913
Information: 920-733-4152

**Giving Back**

Two very special women on our team, Michelle and Marina, have recently faced the battle of their lives, cancer. They’ve endured many sacrifices and challenges over the last few years. We are so proud to announce that they have fought through it and ultimately defeated cancer!

In light of that, Marina was a lead contributor for “Light the Night” here in Chicago. Marina and her team raised donations this year by doing a walk at Gallery Park in Glenview.

To learn more about this great cause, please visit the Leukemia and Lymphoma Society at: [http://www.lightthenight.org/](http://www.lightthenight.org/)

**Team Member Spotlight**

Congratulations to Jason and Cheryl on their newborn Daughter!

Michael Wilson
Chief Investment Officer
Morgan Stanley Wealth Management
Morgan Stanley & Co.

Chief US Equity Strategist
Morgan Stanley & Co.

2018 was one of the rockiest years for equity investors since the financial crisis. What will 2019 bring? Read what Michael Wilson, our chief investment officer, thinks is on the horizon in his annual outlook.

Unfortunately, 2018 could not have been more different from 2017. I say unfortunately because 2017 was perhaps one of the best years investors have ever experienced in terms of absolute returns, the breadth of those returns and the low levels of volatility in achieving those returns. It was quite a profitable year with little angst. In contrast, 2018 was one of the rockiest years for equity investors since the financial crisis, with every region and most stocks delivering negative returns. The table below illustrates the dramatic contrast between 2017 and 2018 equity returns by region and sector. While 2018 wasn’t nearly as bad on the downside as 2017 was good on the upside, it was an unprofitable and difficult year for most.

<table>
<thead>
<tr>
<th>Market Sectors</th>
<th>2017 &amp; 2018 Total Return (% in US dollars)</th>
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<tbody>
<tr>
<td></td>
<td>S&amp;P 500</td>
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<tr>
<td>Discretionary</td>
<td>23.0</td>
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<tr>
<td>Staples</td>
<td>13.5</td>
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<tr>
<td>Energy</td>
<td>-1.0</td>
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<tr>
<td>Financials</td>
<td>22.2</td>
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<tr>
<td>Health Care</td>
<td>22.1</td>
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<tr>
<td>Industrials</td>
<td>21.0</td>
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<tr>
<td>Tech</td>
<td>38.8</td>
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<tr>
<td>Materials</td>
<td>23.8</td>
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<tr>
<td>Real Estate</td>
<td>10.8</td>
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<tr>
<td>Comm. Srvs.</td>
<td>-1.3</td>
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<tr>
<td>Utilities</td>
<td>12.1</td>
</tr>
<tr>
<td>Total</td>
<td>21.8</td>
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</table>

Source: FactSet as of Dec. 31, 2018
These views were far out of consensus at the time most strategists and asset allocators were bullish and looking for another double-digit gain for equities and for credit to do well, too. This call came on the back of our out-of-consensus bullish views in 2017, which proved to be correct ("Are You Ready for Euphoria?" On the Markets, January 2017).

It's often hard to pivot quickly and it can also be dangerous to fight the momentum. However, our job as asset allocators is to do just that. In short, we try to stay one step ahead and anticipate change so we don't have to react at the wrong time. In the past few years, we've done a good job of that, even though we've had bad calls, too.

The Callan Periodic Table of Investment Returns

The Callan Periodic Table of Investment Returns conveys the strong case for diversification across asset classes (stocks vs. Bonds), capitalizations (large vs. small), and equity markets (U.S. vs. non-U.S.). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years. The table depicts annual returns for 8 asset classes, ranked from best to worst performance for each calendar year. The asset classes are color-coded to enable easy tracking over time.

<table>
<thead>
<tr>
<th>Non-U.S.</th>
<th>Cash Equivalents</th>
<th>Real Estate</th>
<th>Large Cap Equity</th>
<th>Non-U.S. Equity</th>
<th>Large Cap Equity</th>
<th>Fixed Income</th>
<th>Small Cap Equity</th>
<th>Emerging Market Equity</th>
<th>U.S. Fixed Income</th>
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<tr>
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<td>2018</td>
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Source: Callan
Looking to 2019

- Mike Wilson

We think much of what worried us last year has now been appropriately repriced. Equity risk premiums are up substantially all over the world, with the average price/earnings multiple down 25%. Of course, valuation is only one metric to consider. We are also encouraged by the collapse in investor sentiment and positioning in the past three to six months, and we like that many other strategists and most media outlets are finally getting bearish and acknowledging the narrative we were using for all of 2018.

Finally, our technical analysis of the stock market showed signs of selling exhaustion during the last week of the year. All of these items—valuation, sentiment, positioning and technical exhaustion—make us incrementally bullish now. In our most recent “Thoughts on the Market” video commentaries, we have been encouraging clients to start putting some of that cash they have raised this year back to work, especially when the S&P 500 is trading around 2,500 and offering what we think is 10% upside-with dividends, a 12% total return—to our year-end forecast of 2,750.

How Tariffs Could Increase Costs & Crimp Profits

- Kimberly Greengerger, MS & Co’s Equity Analyst for North American specialty apparel and department store retailers.

At its peak in 2010, China made 39.2% of all apparel imported to the US, according to the US Commerce Department. That was before rising wages led manufacturers to lower-wage countries. By 2017, China’s share was down at 33.7% (see chart). Now, with the possibility of as much as a 25% tariff on Chinese goods, what will happen to the supply chain that produces much of what we wear—and how will it affect retailers’ profits?

From a fundamental standpoint, our economics team is forecasting a trough in global economic growth in the first quarter, which means markets should start to discount that now. Creating that trough will be the three largest emerging market (EM) economies—China, India and Brazil—as well as Japan. China has been aggressively easing monetary policy and cutting taxes for more than six months as an offset to their crackdown on excessive credit growth last year and headwinds from US tariffs. Given the lack of a firm “deal” on trade with the US and recent slowing in global activity, we think more stimulus from China is forthcoming, even though they just announced several new measures. For India, we are expecting accelerating growth, too, as they begin to stimulate ahead of what will be an important election in the spring. Finally, Brazil is just starting to recover from a deep three-year slump. Japan suffered two natural disasters, an earthquake and a typhoon last year. As a result, third-quarter GDP was sharply negative and growth is already rebounding nicely. Finally, while we aren’t looking for acceleration in European growth, it should hold steady near its potential GDP of 1.5% and not be a drag on global growth. Meanwhile, our economists expect US economic growth to decelerate sharply to 1.0% in the third quarter from its peak of 4.2% in last year’s second quarter.

How Tariffs Could Increase Costs & Crimp Profits

Manufacturers may seek to move additional production out of China if tariffs are implemented on apparel imports from China, but given the country’s large share of the import volume and labor-pool limitations elsewhere, we expect this further migration would take years to achieve, if at all. This means US retailers would face higher apparel sourcing costs if the US implements tariffs on apparel imports from China.

In our view, retailers would likely rely on a variety of maneuvers to defray some of the incremental costs brought on by tariffs, including sharing the costs with Chinese manufacturers and raising prices to consumers. Additionally, they may hope for US-dollar appreciation against the renminbi to offset a piece of the cost. However, the stars would need to align perfectly to preserve retailers’ earnings before interest and taxes (EBIT) margins at current levels, and we are unconvinced that all of the pieces will come together. Instead, we expect apparel retailers’ margins to fall in 2019 if tariffs are implemented, and this potential pressure is not included in our current earnings forecasts.
Price Deflation

We don’t believe that retailers can successfully raise prices. The US apparel market has suffered from price deflation for more than two decades. On average, US apparel prices have deflated at a rate of 1% per year, demonstrating that apparel retailers have little-to-no pricing power. Further, in an era of internet shopping, apparel retailers struggle to get shoppers into their stores. In response, retailers have used price discounts to drive traffic. Even with those incentives, US retail store traffic has declined an average 3% a year since 2010. Without price to drive customers to the stores, volumes could deteriorate further, pressuring aggregate retail margins. So, how might a 25% tariff on imported Chinese apparel be absorbed? We make room for a wide range of possible outcomes, but offer the following scenario as an illustrative example: Assuming the dollar strengthens against the renminbi by 5% and China-based manufacturing partners and retailers share the tariff costs equally, we calculate an impact of 160 basis points on EBIT margins and a roughly 20% impact on operating-income growth. This also presumes no ability to pass along higher costs to consumers.

Further Wage Pressure

This scenario assumes no cost inflation elsewhere in Asia, which strikes us as optimistic. If other industries subject to US import tariffs look to move production out of China to other Asian countries, those countries could experience upward wage pressure. Given apparel production is a relatively lower-wage industry, labor scarcity and/or repurposing labor to higher value-added manufacturing could drive wage rates higher for apparel producers throughout Asia.

Insights into Retirement

- Jason Darfler

I’m commonly asked to review 401(k) statements from clients that are still actively working. Our first priority is of course, making sure the investment mix they’re using makes sense for their personality. However, the second most important piece of information I typically look at is if they have a balance of “after-tax” savings in their account. Basically, the employee would’ve elected to have after-tax money deposited through payroll instead of pre-tax money that would reduce their W-2 income.

This “bucket” of savings can be extremely valuable if someone were looking to save money into an account where they’d be able to access it anytime. An employee wouldn’t need to wait until 59 ½ years old to touch it, and it can be used for anything ranging from a down payment for a house to taking a family vacation. However, if a client has no immediate need for using these savings, a neat tax efficient strategy exists for retirement. At any time or age, the IRS will allow employees to rollover after-tax deposits to a Roth IRA.

Unlike someone writing a check to their Roth IRA & being restricted to a limit of $6,000 (under 50 years old) or $7,000 (50 & over) each year, no restrictions exist when the funds come from a 401(k). For example, if a 50 year old employee had accumulated $20,000 of after-tax savings in their 401(k) over the years, they’d be able to roll over the contributions piece to a Roth IRA.

The biggest difference between leaving the money in a 401(k) vs. shifting it to a Roth is future tax on the growth. If the person in this example left the funds in their 401(k) until retirement and ultimately used funds to live off, they’d be facing a tax liability on the growth of this $20,000 they put in. However, if this $20,000 were placed into a Roth IRA and taken out as a qualified distribution, the entire amount would be tax-free. If you still have a 401(k) plan, it’d be worth your while to review the “sources” of the account and see if anything is populating in the “after-tax” area. We can always help you review this if it’s something you’d like any more information on.
Getting to Know Rachel Wilson

Rachel Wilson is the Head of Cybersecurity for Wealth Management and Investment Technology and is responsible for protecting the cybersecurity of Wealth Management and Investment Management systems and the integrity and confidentiality of Firm and client data.

Rachel joined the Firm in April 2017 after nearly 15 years at the National Security Agency (NSA). Over the course of her NSA career, Rachel held several key senior executive level leadership positions.

Between 2008 and 2010, she ran NSA’s counterterrorism operations and led a global enterprise in detecting and disrupting terrorist plotting against the United States and its Allies. Between 2010 and 2012, Rachel served as NSA’s Chief of Operations in the UK working out on the US Embassy in London. In this role, she worked with UK intelligence services to counter terrorist and cyber threats to the 2012 Olympics. Returning to the US in 2012, Rachel spent nearly five years leading NSA’s cyber exploitation operations as the Deputy and then Chief of the Remote Operations Center with NSA’s Tailored Access Operations. In this capacity, she led the planning and execution of thousands of cyber exploitation operations against a wide array of foreign intelligence, military, and cyber targets and served as the committing official for many of NSA’s highest risk and most important intelligence gathering activities.

How to Contact Ted

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Ted’s Email  Ted.Davis@MorganStanley.com
Website  https://fa.morganstanley.com/thedaviswealthmanagementgroup/
LinkedIn  https://www.linkedin.com/in/teddavisfinancialadvisor/

Personal Cyber Security Podcast

As you know, the world we live in is rapidly changing. While Ted was growing up, cybersecurity was never a topic that came up at the dinner table.

With everything we see and hear in the news regarding cyber fraud, Ted wanted to put together a podcast series to better protect the people he cares for.

To create the podcast series, Ted traveled to New York in early March to interview Rachel Wilson.

His intention was to share information about the cybersecurity area at Morgan Stanley and to also provide listeners with specific actions that they should consider in order to better protect their personal information.

To listen to his podcast series, please visit:

https://fa.morganstanley.com/thedaviswealthmanagementgroup/#podcasts

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