Arbor Capital Management

First Quarter 2019 Investment Overview

After a rough conclusion to 2018 for stocks, the year is starting in need of some rest and consolidation. The US economy, in contrast, remains quite strong. 2019 promises continued growth albeit slightly slower than 2018. Other than some hiccups in the yield curve there are no apparent signs of a recession developing at this time. Many speculate that a recession may start late this year. At this time, we view such opinions as guesswork, but we will be watching for corroborating data.

Economy Deccelerating. The US economy still has a gentle wind at its back in the form of lower corporate tax rates, and repatriation of overseas deposits that is ongoing. Capital spending is robust suggesting productivity gains in years to come. The strongest labor market in over a generation has buoyed consumer spending. MasterCard recently stated that credit for the past Christmas season grew over 5% from the year prior, which was a surprisingly positive result. The lagging factors appear to be housing sales and automobile demand. Both time series have plateaued for the past few quarters. For the business cycle to extend past 2019, both of these series would have to show improvement. Existing home sales show some promise in this regard.

The US faces global headwinds that create an element of economic uncertainty and a drag on domestic growth. Purchasing Managers' Indices throughout the globe are generally softening but still indicating industrial expansion. China is a notable exception, posting a contraction for the first time in over a year. US manufacturing posted the strongest number. Japan is in recession. The UK faces uncertainty regarding the outcome of BREXIT, and the German auto companies are under pressure both to re-tool and to cope with possible tariffs.

Inflation / Monetary Policy/Fixed Income. Inflation started to build last year but has recently cooled off. We routinely look at several drivers to better understand the dynamics behind inflation. Some of the main ones are wages, general commodity prices, oil and, capacity utilization. None of these currently present any meaningful upward pressure on inflation. We expect the Fed to pause increasing the Fed Funds rate for a quarter or two pending further economic developments. The Fed's current inflation forecast projects inflation (PCE) remaining around 2% through 2021. Eurozone inflation appears likely to mirror that of the US but with less growth. Both the Fed and ECB are letting their bond holdings run off, effectively tightening money supply.

As a direct consequence of low and stable inflation, interest rate yield curves are remarkably flat offering little appreciable pick-up in yield by extending maturity. Given this backdrop, our Fixed Income strategy is neutral to defensive. Average terms to maturity are relatively short. We identify fixed income value by constantly weighing the incremental yield advantage against the potential risk of the underlying instrument.

Stocks. The start of 2019 strikes us as almost the direct opposite of last year. At the beginning of 2018 many, including us, were overly optimistic. This year pessimism abounds focused on economic policy concerns. The economic backdrop tells a more bullish story. Usually, things are neither as good as the most positive forecast nor as bad as the most negative forecast. We expect share returns to be positive this year and there is a possibility that we could experience a pleasant surprise later in the year. Valuations are comparatively attractive to five and ten year periods.

Nevertheless, short term volatility is likely as share prices continue to consolidate around current levels. A more severe than expected downturn in overseas economies, should one occur, would be a negative influence on eps. S&P 500 companies earn over 40% of profits from non-US sources.

Sectors of interest to us are Healthcare, Finance, and Industrials. We continue to believe that a shift in preference from growth names to value is likely to take place over the next two to three years. In addition to your year-end statements, we are enclosing a copy of our Privacy Disclosure Document in compliance with SEC requirements.

In addition to your year-end statements, we are enclosing a copy of our Privacy Disclosure Document in compliance with SEC requirements.

We are also including the yearly Realized Gain & Loss Report for all taxable accounts.

Once again, we would like to thank you for your business. We hope the coming year benefits your personally and financially. We would also like to extend a special welcome to our new clients who joined the Arbor family in the past quarter.

If you know someone or an organization that you believe would benefit from our services, please mention our name. We would be honored to have more clients like you.

Sincerely,

Gerald T. Cole, CFA **January 25, 2019**

Chief Investment Officer

This report has been prepared by ARBOR CAPITAL MANAGEMENT for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning ACM, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or group of ACM as a result using different assumptions and criteria. ACM is under no obligation to update or keep current the information contained herein. ACM, its directors, officers and employees, or clients may have or have had interest or long or short positions in any securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them from time to time. Neither ACM nor any of its affiliates, nor any of ACM' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. ***Additional information will be made available upon request.*** *Past performance is not necessarily indicative of future results.*

For investment advice, clients or interested persons should contact their Arbor Capital representative.

Lawrence T. McGowan	**Daniel M. Toole**	**Leo Mesa, CFP**
100 Corporate Pkwy, Suite 308	100 Corporate Pkwy, Suite 308	790 Juno Ocean Walk, Suite 600
Amherst, NY 14226	Amherst, NY 14226	Juno Beach, FL 33408
(716) 446-9111	(716) 446-9111	(786) 202-0602
ltmcgowan@arborcapitalmgt.com	*dmtoole@arborcapitalmgt.com*	*lmesa@arborcapitalmgt.com*