

November 21, 2018

To our clients and friends.

With Thanksgiving upon us, we wanted to reach out to you, first and foremost, to express our thanks for the privilege of working with you, and to wish you a heartfelt Happy Thanksgiving.

We also wanted to take this opportunity to comment on the ongoing correction and volatility in the financial markets and share our current perspective.

As we have often written, corrections are normal and even healthy for the financial markets. They help to flush out excesses, chasten speculators, and restore stability and an appropriate balance between prices and fundamentals.

The chart from J.P. Morgan below shows the annual returns for the S&P 500 going back to 1980, as well as the maximum intra-year decline in the markets. In every year there has been a decline or correction, and yet in most years, the markets finished positively. The average correction was about -14% from peak to trough. So far, in the current correction which started on September 20th, the stock market, as measured by the S&P 500, has declined about 10% and is basically back to where it started the year.

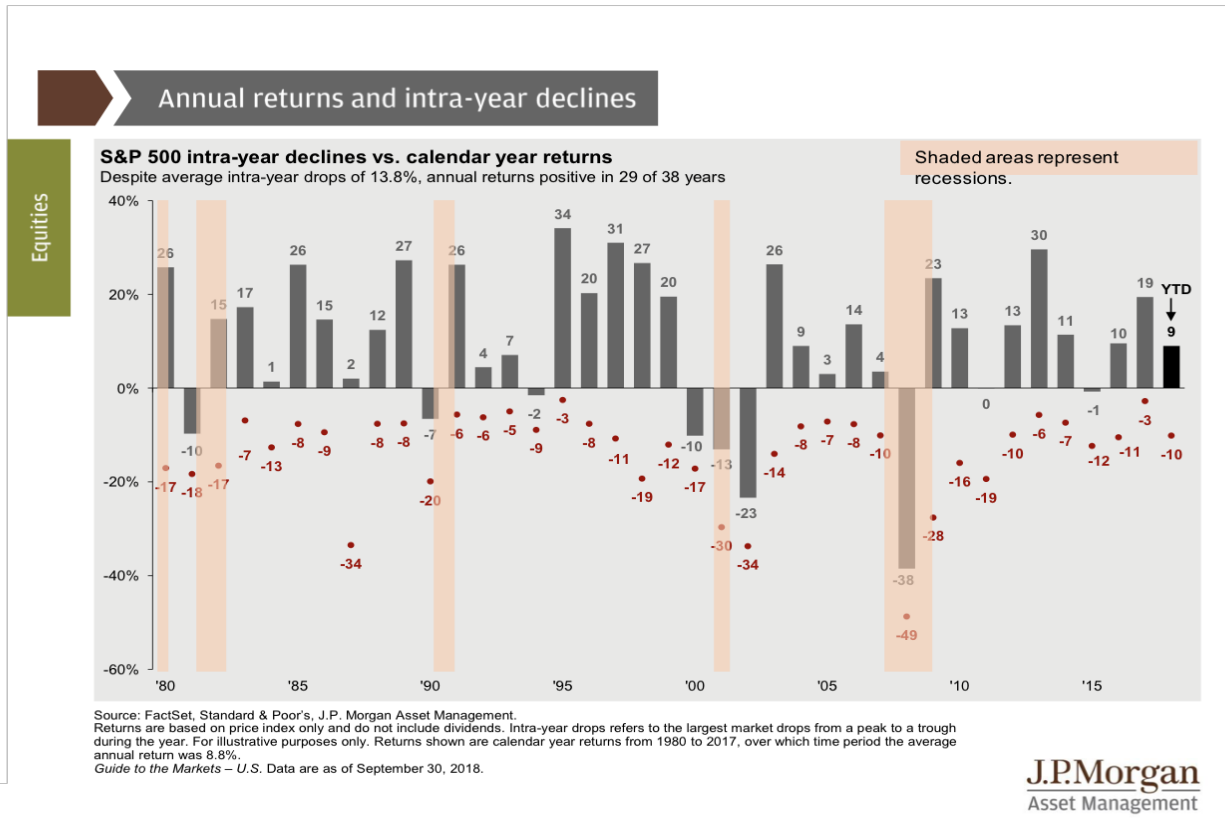
Although corrections are normal, like hurricanes and other storms, they are not fun to live through. And the news media usually makes matters worse by attaching meaningless milestones, and unwarranted significance to every market move.

While it is true that every bear market starts with a correction, it is also true that the vast majority of corrections do not result in bear markets. Over the past 38 years and 38 corrections, only eight of the years (1981, 1990, 1994, 2000, 2001, 2002, 2008, 2015) ended with a negative return, and only five of the corrections resulted in a “bear market” (defined as a decline of 20% or more over two or more quarters). Moreover, all five bear markets coincided with a recession.

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Although corrections are normal, and it is easy to predict that we will have them, it is hard to predict when they will happen and why. They often seem to come out of nowhere, triggered by a particular event or set of concerns. And they usually end just as quickly, and often with a sharp rebound, just as investors become convinced that things can only get worse.

As a rule of thumb investors dislike surprises, disappointments, rapidly changing conditions, and overall uncertainty. But problems typically lead to solutions, investors adapt to new realities, and periods of uncertainty typically lead to periods of resolution. The economy returns to growth, credit markets stabilize, and equity markets move higher.

The larger truth for investors is that corrections are difficult to time and rarely worth the effort to do so. Investors usually decide to sell after the correction has largely run its course and then miss the rebound and reinvest at higher prices. For a long-term investor it is far better policy to stay invested. Economies and markets have a tendency to grow and appreciate over time. Despite corrections and bear markets, recessions, terrorist attacks, wars, credit crises, dot com and housing bubbles, election surprises, the power of compounding, if allowed to work its

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magic, tends to overcome all obstacles. A dollar invested in the S&P 500 in January 1980 is up over 6,835% or over 11.5% a year, annualized.

This supports the logic of having a long-term investment strategy and asset allocation that is appropriate to your objectives and tolerance for risk and designed to weather the inevitable storms that come along without requiring frequent or significant course corrections. This is how we are managing your portfolios.

So where are we now, and is the current correction merely a correction, or the start of the next Bear Market?

We think the current market decline is a correction, rather than the start of the next bear market, brought about by a collision of high expectations and valuation levels with a somewhat less rosy current and projected future outlook.

The era of things being as good as they get – with free money, no inflation and lots of stimulus working through the economy is coming to an end. Interest rates are rising, as are inflationary pressures in wages and prices for goods and services. Corporate profit margins and growth rates are under pressure and the stimulative benefits from last year's tax cuts have largely worked their way through the economy.

Higher interest rates are also having an impact on credit markets, and the cost and availability of capital for homeowners and businesses. Credit is still readily available for qualified borrowers, and it is still inexpensive by historical standards. Interest rates are not high enough to prevent worthwhile projects from being financed, but they are certainly higher than they have been in recent years, and closer to where they should be.

Global growth outside the U.S. is also deteriorating. Britain is still trying to work a Brexit deal and Italy is still trying to work a budget deal with the European Union. Emerging markets have been impacted by a strong dollar and slowing demand from China.

Our current trade dispute with China is also adding to investor anxiety and casting a cloud of uncertainty about future economic growth. Trade is an important driver of growth, and trade wars tend to harm all involved, although not always equally. Our guess is that the U.S. and China will come to an agreement that allows both presidents to declare great success.

The election is also over, with results largely as expected. This removes one overhang of uncertainty. Market tends to like political gridlock as long as nothing harmful happens, such as a government shutdown. A second overhang of uncertainty remains with the Mueller investigation. We would expect some outcome sooner than later and do not imagine it will be favorable for the president given the number of senior level campaign and Trump Organization

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people who have been given immunity deals for their testimony. The outcome and its aftermath could easily rattle the markets for a time.

There may be clouds in the sky, but this doesn't mean that the sky is falling. Things in the U.S. are still good, but just less good than they were. Things outside the U.S. are more challenging.

Our view is that while the U.S. economy is slowing, and perhaps experiencing a temporary lull, a recession is not imminent.

We believe that the current correction will run its course shortly. A lot of bad news and diminished expectations are now priced into the market. This doesn't mean that markets can't go lower, but as they do, the investment opportunities become more interesting.

As we said above, we do not try to time the market but rather look for long-term trends of opportunity and adversity and align portfolios accordingly, focusing on areas of secular growth and opportunity and balancing those investments with more defensive and alternative investments to control portfolio risk.

Having said that, there are times to be more defensive, typically when markets are high, and investors are complacent, if not giddy. And, there are times to lean into markets, typically when the news is bad, and investors are fearful.

Now as the markets correct, we are seeing more interesting opportunities and will likely do some portfolio repositioning to take advantage of them. Emerging markets and emerging market technology stocks have been hit especially hard and offer a compelling combination of growth and value. Despite current fears of trade wars, we continue to believe in the long-term potential of the emerging economies relative to developed economies and want to have a portion of client portfolios allocated to this area.

We also continue to believe in and maintain investments allocated to technology, life sciences, medical technology and healthcare. These sectors got ahead of themselves earlier this year and are now being sold en masse. Stocks that were loved at one price are now hated at half that price, despite great business models and long-term growth prospects. It seems that when Wall Street throws a Black Friday sale, people run the other way. Go figure.

Corrections also provide an opportunity to review investment returns to see if portfolios are performing as we would expect and to make adjustments where necessary. To this end we have taken a few steps to reduce risk exposure in the "defensive core" part of our portfolio allocation models, including reducing and diversifying our allocation to Alternative investments.

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And now for something completely different....

Finally, we wanted to let you know that we will be moving at year end.

Earlier this Fall our landlord notified us that they would not be renewing their lease in the Ferry Building when it came up for renewal in December. Therefore, we along with other tenants on the second floor, will be saying a fond farewell to the Ferry Building at year-end.

Although bittersweet, it has provided us an opportunity to take a fresh look at our current office requirements in terms of client needs, access to research and convenience to our employees.

Our clients are now located throughout the Bay Area and around the country and we concluded that it makes sense to maintain two office location in the Bay Area, one in San Francisco's Embarcadero Center for local client and research meetings, and a new main office in the East Bay, located in Lafayette's beautiful Mercantile Building.

Both offices provide easy access to parking and BART and will also greatly reduce the daily commuting time for our employees.

We will move at the end of December and look forward to greeting you at one of our two offices or wherever is most convenient for you. Our phone numbers and emails will all remain the same and more details will be forthcoming next month.

On behalf of all of us at Jurika, Mills & Keifer we wish you a very Happy Thanksgiving and beginning of the Holiday Season. As always, we are here to help so please do not hesitate to reach out to us if you have questions or if we can be of assistance to you in any way.

Best,



Karl Mills, CFA
President