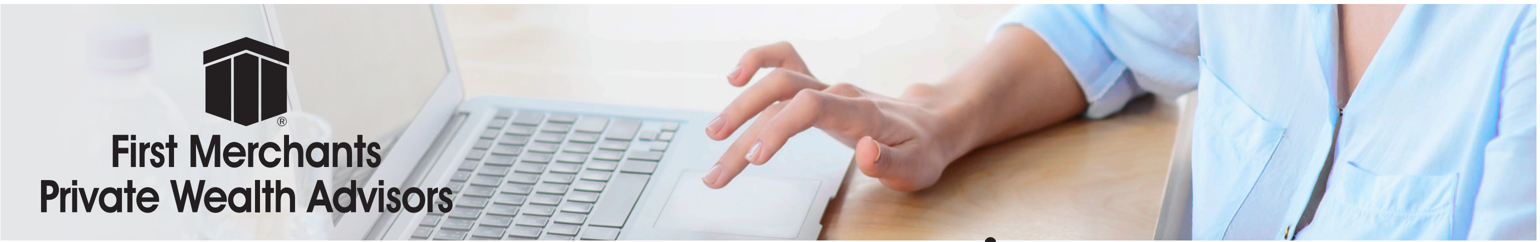


PRIVATE WEALTH *perspectives*

VERSION 19.1

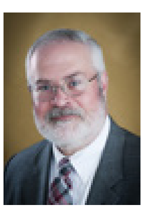
Friends,

2018 was a paradoxical year for our business. The year started with much hype and excitement around changes to the federal tax code and continued reduction in regulatory burden for many industries. It ended with concern over slowing global growth, trade wars with China, Eurozone tensions and a stock market behaving like a petulant child. It was an abnormal year that was actually quite normal. As you have learned through your personal success, nothing in the world of global economics and financial services is ever smooth for a long-time. While the last 8 years have shown slower economic growth than average, that growth was consistent. 2018 marked a diversion from the consistency. It is that inconsistency which creates the platform for our brand of advice and counsel. We strive to partner with you, to provide comprehensive solutions and personal service, in pursuit of your secure financial future. Our experience tells us that is never a straight-line journey. We are here to help with the detours and off-road adventures, and it is our pleasure to do so.

I hope you find our latest installment of Private Wealth Perspectives insightful and beneficial to your pursuit.

INVESTMENT MANAGEMENT

Looking Forward, or Good Riddance



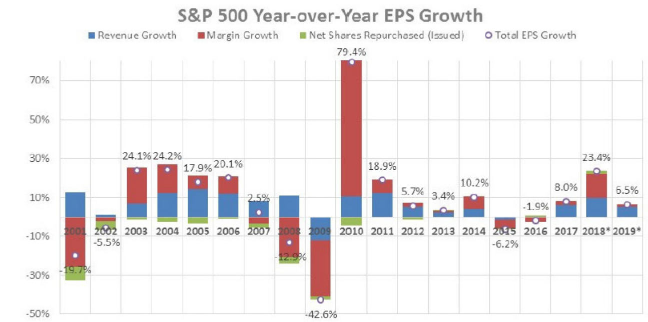
Explaining the excessive volatility in equity markets during 2018 is relatively straightforward. One, the Federal Reserve, in its quest to provide itself the means to contribute liquidity to markets and the economy should it be needed in the future, raised the Fed Funds rate four more times, from 1.50% to 2.50%. This on top of five raises of 0.25% each from December 2015 to December 2017. Two, the powerful earnings growth for US companies as a result of the 2018 Tax Cuts & Jobs Act will begin to wane in 2019, and equity markets finally woke up to this fact. The sum of the two, rising interest rates and slowing earnings growth, will always create instability in current equity prices.

We've written before that the current price of future cash flows (a bond's periodic coupon payments, or the cash flows of a business) are set by a discount rate. This is the basis of the concept of "Present Value." If that discount rate goes lower, you should be willing to pay more for a future set of cash flows; vice versa, if that rate goes higher, you should expect to pay less. The Federal Reserve relied on this mathematical fact, and the resultant "Wealth Effect" when it reduced the Fed Funds rate to 0.25% in the attempt to accelerate the growth of our economy. Whether or not it aided the economy, which averaged about a 2.00% growth rate, is open for debate. There can be little debate that equity prices were greatly impacted; the average annual return of the S&P 500 from 12/31/2008 (when the Fed reduced rates to 0.25%) through 12/31/2017 was 14.21%. Through 12/31/2018, after a rough year, the S&P 500 still generated a robust 13.32% total return. Those returns don't describe a roller coaster ride, rather a rocket launch.

Let's be optimists. The Fed wouldn't raise interest rates unless they were positive the economy was in a strong enough position to withstand any fallout from doing so. We are coming off of three very solid prints for quarterly GDP and a December employment number far above estimates. As well, the revisions to previous month's employment numbers were also quite positive. Wages are growing but not in an inflationary fashion; indeed, inflation is not currently an issue (and may not be for a long time). For reasons we'll discuss in a minute, we highly doubt we are headed for a recession. Slowing growth, possibly. A recession, no.

Though earnings for the S&P 500 for the four quarters in 2018 handily beat one year prior period earnings, the growth rate of earnings will slow for the first three quarters in 2019, when compared to 2018 earnings growth rates. That's what's stopped equity markets in their tracks. An optimist would note, however, those comparisons should again turn positive by Q4, and both revenues and earnings should grow closer to their longer term averages of 3-6% and 6-8% respectively. In other words, at some point in 2019, all else equal, we will have a much more fairly-valued equity market and revenue and earnings comparisons that will become easier to beat. We will also hopefully be back to a cessation of 1) a Federal Reserve artificially goosing equity prices by manipulating interest rates, and 2) equity markets where the cleverness and wherewithal of the individual company matters more than its tax rate. One thing that should be noted: Profit margins are relatively high according to historic averages. Their returning to longer term averages would weigh on corporate earnings growth as shown in the following graphic:

Historical sources of earnings per share growth



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg.
EBIT Margin %	11.2%	11.2%	11.3%	12.3%	12.9%	13.3%	13.5%	13.7%	11.6%	13.4%	14.0%	13.7%	13.3%	14.1%	13.3%	13.1%	13.6%	14.1%	14.2%	**13.4%**
Net Profit Margin %	6.7%	6.5%	7.7%	8.7%	9.2%	10.0%	9.7%	7.9%	5.3%	8.8%	9.4%	9.5%	9.6%	10.2%	9.7%	9.5%	9.7%	10.7%	10.8%	**8.8%**

Source: FactSet, Standard & Poor's, First Merchants Private Wealth Advisors

*Analyst consensus forecasted financial metrics from FactSet were used for 4Q2018 and FY2019

The pessimists should have their say as well. Housing statistics have been poor for several months now, and we note slowdowns, or rollovers, in real-time indicators such as packaging prices, freight rates, restaurant foot traffic, air travel, and lodging revenues-per-available-room. Vail Resorts Friday announced worsening earnings due to very poor bookings thus far, even though there has been a lot of snow. Globally, the production statistics from Germany are poor enough that many believe they may now be in a recession. China has also registered slower industrial growth. Like many others, we have concerns about the accuracy of those numbers, but note that China is Germany's 5th largest export partner, based on 2016 statistics, and may be growing much more slowly than advertised based on Germany's poor showing recently.

Be that as it may, we don't believe a recession is around the corner. As noted in prior communications, a recession typically is the result of an economy growing faster, for several quarters, than its capacity to grow (the non-inflationary GDP growth rate can be closely estimated by adding the percentage increase in people entering the workforce to the percentage increase in productivity). Due to the general lack of inflation, low interest rates, overcapacity in many industries, and the demographics of aging, supply and demand for goods and services appear to be reasonably balanced in the U.S. between a GDP growth rate of 2% and 3%. The aforementioned "Wealth Effect" premises that people tend to spend not only some portion of their paychecks, but also some proportion of their increase in total wealth. In other words, if you watched your 401(k) grow by 14.21% per year from 12/31/2008 through 12/31/2017, you would also be inclined to spend more of your paycheck due to the increase in your total wealth. This is exactly what the Fed was after by reducing interest rates so drastically, though there was notable collateral damage, such as the tremendous increase in leverage in corporate America. But the Wealth Effect also works in reverse. Think about 2008, when you came home from work and checked out your investment portfolio. More than likely a lot of vacations were put on the back burner. There is every possibility that some of the slowing retail numbers were due to excessive volatility in October and December.

We reduced our client's equity positions back to neutral four months ago, from a slight overweighting, have raised our cash positions in many accounts, and also slightly increased our short term bond positions. Bonds have performed exactly as they should; when we announced our tactical change the 2-year Treasury was yielding 2.84%. Today it was 2.54%, a fairly significant rally. As well, money market funds are now yielding more than the 2-year Treasury. The Fed has finally provided a reasonable place to hide if need be.

Though we are comfortable sticking with our slightly reduced risk positions, we would also note we pride ourselves on the timeliness and thoroughness of our monthly portfolio manager's meetings and bi-weekly teleconferences. If we felt we had to act to further reduce risk on behalf of our clients, we would do so, as well as relay our thoughts and reasoning.

Thank you for being a client, it is always appreciated. The team that has been assembled here is, I believe, second to none. As always we welcome your comments and are always available for consultation. Best regards…

Jamie D. Wright,

CFA Portfolio Manager/Research Director

First Merchants Private Wealth Advisors

RETIREMENT PLAN

During the accumulation phase, what are you accumulating? Money or dollars are the most common responses, but your balance ultimately is tied to the number of shares you own of that mutual fund you own. The more shares you own, the better off you are as the price goes up over time. By investing in your 401k every payroll, you're practicing in a prudent strategy called Dollar Cost Averaging; investing equal dollar amounts at regular intervals. You're buying no matter what the market is doing and this discipline of regular investing ensures you won't drop out when the market turns bearish.

Let's take a look at an example:

Month	Monthly Investment	Price Per Share	Numbers of Shares Purchased
January	$200	$10	20.00
February	$200	$11	18.18
March	$200	$12	16.67
April	$200	$14	14.29
May	$200	$11	18.18
June	$200	$10	20.00
July	$200	$9	22.22
August	$200	$9	22.22
September	$200	$8	25.00
October	$200	$6	33.33
November	$200	$8	25.00
December	$200	$10	20.00
TOTAL:	**$2,400**		**255.09**

Average Cost Per Share: $2,400 ÷ 255.09 = $9.41
Year-End Account Value: $2,550.90
Investment Gain: $150.90

By the end of October and the low of the market, you would've had a negative return, but by the end of December, you're showing a positive return. You achieved a positive return by focusing on a proven strategy and ignoring the noise behind the basket. As an added bonus, your mutual fund may distribute dividends and capital gains. When those are reinvested back into the fund, this also helps to add shares to your account.

Of course, Dollar Cost Averaging cannot assure a profit or protect against loss in a declining market. Also, since the program's benefits are realized over time, you should consider your financial outlook before you start and be prepared to stay the course during periods of low prices as well as high.

PERSONAL TRUST

Your 2019 Financial To Do List

I am not a fan of "New Year Resolutions" but I do believe that everyone, either at home or at work, has had or understands the proverbial "To Do" list. As we start 2019 I would like to suggest some financial tasks that you should consider putting on your personal list of things "To Do".

- Review your investment asset allocation

This is really two tasks. First you need to determine what is an appropriate asset allocation based upon your age, assets, financial needs and employment situation. There are many rules of thumb in this area but sitting down with an advisor to really dig into your personal situation is always the best way to make sure you have an asset allocation that meets your goals. The second task is making sure that recent market volatility has not gotten your total asset allocation out of balance, and making appropriate adjustments as needed.

- Look at your retirement plan options and take full advantage of what is available

If you have a workplace retirement plan make sure you are taking full advantage of matching options and contributing as much as you possibly can. The tax deductibility of your contributions combined with the magic of compound investment returns is a powerful combination for retirement success.

HSA account contributions are another valuable and tax advantaged way to save for retirement. If you are eligible and can afford to cover your current medical expenses, HSA's offer a tax free way to save for your medical costs and expenses in retirement.

- Pay attention to your 2018 tax results and adjust accordingly

It is very likely that your tax return this year is going to be different than in prior years. Review with your advisor what has changed and make appropriate withholding, estimated payment, and other adjustments to make next year's taxes less of a surprise.

- Contribute to an existing IRA or create a new one

If you are eligible to make a regular or Roth IRA contribution you should do it now. If your income level does not allow you to make deductible regular or Roth IRA contributions you may still have options. A common strategy if you have never been able to make deductible IRA contributions before is to make a non-deductible IRA contribution and immediately roll it over into a Roth IRA. The earnings in your Roth IRA grow tax free and are not taxable upon withdrawal.

Continued...

- Review automated charges and expenses

It is very common to set up many of our day to day expenses as automatic payments from credit or bank accounts. Make a point to look at all of your January bills and statements to see exactly what you are paying. It is not uncommon to find memberships and subscriptions that are no longer of value still being paid.

- In summary

The first quarter is a good time to stop and review where you are and where you should be going. Putting some or all of the above on your "To Do" list is a step in the right direction. First Merchants Private Wealth Advisors partners with individuals, families and organizations to provide comprehensive solutions and personal service in pursuit of a secure financial future. We would be happy to assist you as you plan for the coming year.

David Forbes

We partner with individuals, families and organizations to provide comprehensive solutions and personal service in pursuit of a secure financial future.

Powerful Local Resources

Delivering broad advisory capabilities through local, engaged and empowered leaders.

Comprehensive and Coordinated Approach

Surrounding our clients with a team of experts to deliver financial solutions focused on their long-term financial success.

Standard of Excellence

Delivering proactive service and client advocacy as we look to build strong, intergenerational relationships.

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