



First Quarter 2018 Review

Dear Clients:

Taxes, tech, Trump tweets and tariffs continue to fuel volatility. U.S. stocks declined about 0.8%, world stocks declined about 1.0%, and U.S. bonds declined about 1.5% in the first quarter*. Diversification helped mitigate losses, with your small company stocks and emerging markets stocks increasing in value. We were also pleased with our decision to shorten duration but not abandon US Treasuries as interest rates retreated and your Treasury fund appreciated last month.

Chief Allocation Strategist Steve Bobo and I expect the volatility to continue. It is hard to imagine 2018 giving us another 20%+ in stock returns, but don't rule it out completely. We will stay disciplined and we will stay invested.

As the news out of Washington continues to defy logic, we found it helpful to review our core beliefs. Surprisingly perhaps we do not think that the current political volatility will adversely impact our client's investment net worth over time. We hope the following summary is helpful to you, or at least prompts a conversation with us. I will be contacting you in the next few weeks to check in.

What We Believe

1. World economies will grow due to innovation and progress. War and natural disaster also frequently spur economic growth.
2. Markets don't always reflect reality. They frequently reflect overreaction in fear and exuberance. Swings in either direction are often short-lived.
- 3a. Strategic allocation: we build globally diversified portfolios with low-cost exchange-traded funds. We consider multiple economic scenarios to lower risk.
- 3b. Tactical allocation: We use high quality stocks and more active strategies to mitigate passive overweights, reduce correlation, and protect against unexpected consequences.

*As represented by the S&P 500 US Large Company Index, the All Country World Index, and the Barclays Aggregate Bond Index.

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4. Identify major trends:
 - a. Cheap energy in the US
 - b. Central bank interest rate repression is difficult to abandon
 - c. Emerging markets are likely to provide more robust growth over the long term
5. Identify threats and opportunities and make incremental tactical changes to attempt to increase returns and lower risk.
6. Indicators:
 - Global growth is strong but probably not overheating
 - Stocks (especially U.S.) are expensive but not necessarily overvalued
 - Shrinking unemployment does not appear to be stoking inflation (Phillips Curve breakdown), possibly due to technology

Please refer to the following new quarterly report format, and please contact us if you have concerns about your accounts. Our money continues to be invested alongside yours.

Sincerely,

John H. Biebel, J.D., CFP®

Chief Client Advisor

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