Economic Review

The much anticipated Tax Cuts and Jobs Act has made its way into law. The final version includes tax rate cuts for individuals, corporations and pass-through businesses, an elimination of many forms of tax deductions, larger exemptions from the estate tax and alternative minimum tax, and other changes. The fiscal stimulus from tax cuts is anticipated to provide a modest boost to U.S. growth and inflation in 2018.

Outgoing Federal Reserve chair Janet Yellen's last act of her four year tenure was to direct another hike in the fed funds rate. The 25 basis point increase to 1.25% - 1.50% was the third of the year and the fifth since the rate hike cycle began in December 2015. The Fed also revised down its estimate of the unemployment rate for 2018 to 3.9% from 4.1% and revised up its GDP growth forecast to 2.5% from 2.1%.

Headline inflation, as measured by the Consumer Price Index (CPI), rose 0.4% in November as gas prices increased. Over the last 12 months the index came in at 2.2%. Core inflation, which excludes food and energy remains stubbornly subdued at an annual rate of 1.7%.

The U.S. economy grew at its fastest pace in more than two years in the third quarter with real gross domestic product (GDP) increasing at an annual rate of 3.2% according to the Commerce Department. It was the first time since 2014 that the economy experienced growth in excess of 3% for two consecutive quarters.

The unemployment rate was unchanged at 4.1% in November according to the U.S. Bureau of Labor Statistics. The number of unemployed persons was essentially unchanged at 6.6 million.

Improving financial indicators, new orders in manufacturing and historically high consumer sentiment have propelled the Conference Board Leading Economic Index (LEI) higher again in November suggesting that solid economic growth will continue into the first half of 2018.

The University of Michigan Surveys of Consumers index dipped slightly in December. The average for all of 2017 remains the highest since 2000. Buying plans for durables and vehicles remained unchanged at favorable levels. According to the Surveys chief economist the data indicate overall that real personal consumption expenditures will expand by 2.6% in 2018.

Financial Markets Review: Domestic Stock Market

The second longest bull market on record heads into its ninth year with the stock markets climbing significantly since the bear market trough in March 2009. The Dow Jones Industrial Average advanced for the ninth straight quarter, returning 10.33% to close at 24,719.22. The Dow finished the year up 25.08%. The S&P 500 rose 6.12% in the quarter (excluding dividends) to 2,673.61. For the year, the index gained 19.41% ex dividends. The technology heavy NASDAQ finished at 6,903.39, up 6.27% for the quarter and a stellar 28.24% for the year.

All 11 sectors in the S&P posted positive returns in the fourth quarter led by consumer discretionary (9.87%), information technology (9.01%) and financials (8.63%).

Among capitalizations, mid-cap stocks as measured by the S&P MidCap 400 Index rose 6.25% for the quarter while small-cap stocks as measured by the S&P SmallCap 600 Index gained 3.96%, but lagged mid- and large-caps. The growth style continued its domination over value in the fourth quarter and both large and small growth trounced their value counterparts for the year by double digits.

The top-performing stocks in the Dow Jones Industrial Average for the fourth quarter included Wal-Mart (27.03%), Caterpillar (26.98%), and Intel (21.93%). Falling stocks were General Electric (-27.34%) and Merck (-11.37%).

The best performing S&P industry group for the quarter was trading companies and distributors leaping 25.03%. The worst performer was biotechnology sliding 7.58%.

With a sweeping tax cut and economic momentum on its side, the bull market seems poised to continue upward in the year ahead. However, the market climbs a wall of worry. In 2018, these worries include numerous potentialities: geopolitical flashpoints with North Korea, rising tensions in the Middle East, a trade war with China, faltering relations with Russia, Brexit and NAFTA negotiations and China's deleveraging and risks of a hard landing. In addition, there is the madness of crowds psychology as seen by the bitcoin craze, the ongoing investigation into the Trump administration's ties to Russia, Republicans losing the House or Senate in midterm elections, a dollar downturn, accelerating inflation, the pace of interest rate increases and a too aggressive Fed, debt levels and stretched market valuations. Amidst these uncertainties, we remain conservative bulls looking for the market to continue its ascent.

	Total Returns (12/31/17)			Annualized Returns (12/31/17)		
Category/Style	4th Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500	6.64	21.83	21.83	11.41	15.79	8.50
S&P Midcap 400	6.25	16.24	16.24	11.14	15.01	9.97
S&P Small Cap 600	3.96	13.23	13.23	12.00	15.99	10.43
Russell 1000 Large Cap Growth	7.86	30.21	30.21	13.79	17.33	10.00
Russell 1000 Large Cap Value	5.33	13.66	13.66	8.65	14.04	7.10
Russell 2000 Small Cap Growth	4.59	22.17	22.17	10.28	15.21	9.19
Russell 2000 Small Cap Value	2.05	7.87	7.87	9.55	13.01	8.17

Source: Frank Russell Company, Standard and Poor's

International Stock Markets

Synchronized expansion and strong fundamentals propelled global markets higher in 2017 and conditions around the world remain favorable heading into 2018. Globally, the MSCI All Country index has advanced a record 14 straight months and is at an all-time high.

The MSCI EAFE Index of developed markets gained 4.23% in the fourth quarter. For the year the index outpaced the S&P 500 with a total return of 25.03%.

With the continuing global economic expansion as the backdrop, emerging markets surged 7.44% in the fourth quarter as measured by the MSCI Emerging Markets Index. For the year emerging markets soared 37.28%. Frontier markets gained 5.61% in the fourth quarter and 31.86% for the year.

Significantly contributing to developed market returns in 2017 were currencies driven by a weaker US dollar. The Euro Stoxx 600 Index eked out a 0.26% return for the quarter (7.68% YTD) to 389.18 in local currency. Germany's DAX Index edged ahead for the quarter 0.69% to 12,917.64 and added 12.51% for the year. France's CAC-40 Index slipped 0.32% in the period but rose 9.26% for the year to 5,312.56. With Brexit negotiations still evolving, the UK London FTSE 100 Index moved up 4.27% in the quarter to 7,687.77 and advanced 7.63% for the year.

In Asia, Japan's Nikkei stock average added a quarterly return of 11.83% behind Abenomics monetary easing, fiscal stimulus and structural reform policies and finished the year up 19.10% to 22,764.94. In emerging markets, China's Shanghai Composite Index lost 1.25% to 3,307.17 but finished the year 6.56% higher. India's S&P BSE Sensex index grew 8.86% for the quarter and 27.90% for the year to 34,056.83.

The Americas DJ Americas index was ahead 5.57% for the quarter (18.84% YTD) to 642.17. Brazil's Sao Paulo Bovespa Index continued to rebound gaining 2.84% for the quarter and a sizzling 26.86% for the year to 74,293.51. Canada's S&R/TSX composite index rose 3.67% (6.03%YTD) to 16,209.13 and Mexico's S&P/BMV IPC Index dropped 1.01% for the quarter to 49,354.42, but advanced for the year with a gain of 8.13%.

A weaker dollar has played a part in the strong performance of international investments in 2017. The dollar fell 4.14% against the yen in the fourth quarter, ending the period at 107.84 (JPY/USD). The dollar was also 1.59% weaker versus the euro, ending the period at 0.833 (EUR/USD).The euro gained 12.36% for the year against the dollar, which experienced its worst slump since 2003.

World Bond Markets

The U.S. 10-year note yield moved higher ending the quarter at 2.41% compared to 2.33% at third quarter's close. For the fourth quarter, the Barclays U.S. Aggregate Bond Index returned 0.39% (3.54% YTD), the Barclays Municipal Index rose 0.75% (5.45% YTD), and the Barclays U.S. Treasury TIPS Index added 1.26% (3.01% YTD). The 7-day yield on money funds continued higher to 1.10% at year-end according to the Crane 100 Money Fund index. Yields on foreign bonds dropped in the fourth quarter, with the 10-year bond yield down 0.08% in Germany to 0.39%, lower by 0.21% in the UK to 1.17%, and falling by 0.15% in Canada to 1.98%. Yields stayed motionless in Japan at 0.06%.

Commodities

The Bloomberg Commodity Index posted a gain of 4.71% in the fourth quarter bringing it into positive territory for the year at 1.70%. Gold crossed above $1,300 to $1,306.30/troy oz. for a fourth quarter gain of 1.94%. For the year, gold was up $155 or 13.59%. Crude oil broke above $60 to $60.42/barrel ending the quarter with a gain of 16.93% and 10.25% for the year.

Mutual Funds/Exchange-Traded Funds

The increasing popularity of passive investing and low cost Exchange-Traded Funds (ETFs) was reflected in 134 new ETF funds and asset growth of $889 million to $3.3 trillion over the past 12 months according to the Investment Company Institute. The number of funds now totals 1,828. Mutual fund assets gained $2.2 trillion over the same period but witnessed a decline in the number of funds by 91 to 7,981.

Mutual Funds Overview As of December 31, 2017

	Total Returns			Annualized Returns		
Category	4th Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed	0.38	4.60	4.60	2.34	2.35	3.68
Short Taxable Bond	-0.05	1.71	1.71	1.45	1.13	2.30
Intermed. Taxable Bond	0.28	3.70	3.70	2.24	2.07	4.11
Long Taxable Bond	1.95	9.69	9.69	4.54	4.55	6.68
High Yield Bond	0.43	6.47	6.47	4.90	4.63	6.44
World Bond	0.64	6.91	6.91	2.03	0.92	3.45
Small-Cap Blend	3.56	12.27	12.27	8.69	12.98	8.12
Mid-Cap Blend	5.43	15.81	15.81	8.06	13.22	7.82
Large-Cap Blend	6.42	20.44	20.44	9.69	14.23	7.61
World Large Stock	5.01	23.66	23.66	8.88	10.77	4.82
Foreign Large Blend	3.94	25.17	25.17	7.74	7.28	1.81
Natural Resources	7.11	16.29	16.29	4.67	2.25	0.21
Real Estate	2.04	6.21	6.21	5.14	8.68	6.76

Source: Morningstar Category Returns, Morningstar, Inc.

Important Definitions and Disclosures

The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. Asset allocation and diversification do not eliminate the risk of experiencing investment losses. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments.

The information shown does not constitute investment advice, does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation.

Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The **Federal Open Market Committee** (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). **Real Gross Domestic Product** (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The **S&P/Case-Shiller Home Price Indices** are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. **Consumer Price Index (CPI)** measures prices of a fixed basket of goods bought by a typical consumer. It is widely used as a cost-of-living benchmark and uses January 1982 as the base year. The **unemployment rate** percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy which is usually accompanied by higher inflation rate and may call for increase in interest rates. Labor force participation rate is the percentage of working age population that is part of the labor force. It is a measure of what proportion of a country's population is employed or actively looking for employment. The index of leading economic indicators is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. The **Conference Board Leading Economic Index® (LEI)** for the U.S. are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. The **University of Michigan Consumer Sentiment Index** is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in December 1964. Each month at least 500 telephone interviews are conducted of a continental United States sample (Alaska and Hawaii are excluded). Fifty core questions are asked. **Price-earnings (P/E) ratio** is a measure of valuation for a company or a collection of companies such as an index; it is calculated by dividing the market value per share by the earnings per share. **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P SmallCap 600 Index** (S&P600) covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P MidCap 400 Index** (S&P400) is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the US mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly $750 million to $3.3 billion. The **Russell 1000 Index** is a capitalization-weighted price-only index which is comprised of 1000 of the largest capitalized US-domiciled companies whose common stock trade in the United States on the New York Stock Exchange, American Stock Exchange and NASDAQ which are included in the Russell 3000 Index. This large cap market-oriented Index is highly correlated with the S&P 500 Index. **Russell 2000 Index** is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small capitalization securities market. **Morgan Stanley Capital International** (MSCI) All Country World Index (ACWI) is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.**MSCI EAFE Index** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. The **MSCI Frontier Markets Index** provides broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **DJ Asia-Pacific Index** represents the leading stocks by dividend yield traded in the Asia/Pacific region. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. **S&P BSE Sensex index**, is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE, providing an accurate gauge of India's economy. The **BM&F Bovespa**, also known as the Sao Paul Stock Exchange, is Brazil's stock exchange. It is the third largest stock exchange in the world by market value with over 500 companies traded on the exchange. The IBOVESPA is an index of about 50 stocks and is the main indicator of the Brazilian stock market's average performance. **S&P/TSX 60 Index** is a stock market index of 60 large companies listed on the Toronto Stock Exchange. Maintained by the Canadian S&P Index Committee, a unit of Standard & Poor's, it exposes the investor to ten industry sectors.

S&P/BMV IPC Index seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market. The constituents are weighted by modified market cap subject to diversification requirements. In exchange for greater growth potential, investments in foreign securities can have added risks. These include changes in currency rates, economic and monetary policy, differences in auditing standards and risks related to political and economic developments. **Barclays Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Barclays Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital US Government Inflation-Linked Bond Index** (US TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. **Bloomberg Commodity Index:** is a world-production weighted total return index, including reinvested dividends, measuring investor returns from a fully-collateralized commodity futures investment. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk. The **Investment Company Institute** (ICI) is the national trade association of US investment companies, which includes mutual funds, closed-end funds, exchange-traded funds and unit investment trusts. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund. An exchange-traded fund (**ETF**) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Morningstar Category Returns are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in a given Morningstar category, but have since changed to another category.