

Q1

Quarterly Market Review First Quarter 2018

Quarterly Commentary

First Quarter 2018

Stocks in developed markets around the globe had a mildly negative first quarter, and we saw a significant pickup in volatility compared to that which we've seen in the last two years. It was the first negative quarter in US markets since 2015, although the one bright spot was emerging market stocks, which saw a slight increase.

Although global markets—the US included—fell by 1% to 2%, the quarter felt worse than that as markets started very strong with a 7% gain by the last week of January, followed by a 9% drop through the rest of the quarter. And, of course, the media's breathless reporting of it all on a moment-by-moment basis no doubt made it feel yet worse for anyone who was too closely tuned-in.

None of this should come as a shock to any investor with an adult memory. Temporary dips of 10% happen about once a year, and bear markets (a dip of 20%) happen about one in every three or four years. More to point, as much as one can ever say “we were due for something like this”, we really were. Prior to last quarter, we had experienced an unusual lull in market volatility—and all the volatility we had experienced over the last two years had been in the upward direction. Would that it always be so easy!

As for the proximal cause of this newfound volatility and slight market dip, there were several factors at play. Stock valuations—especially in the US—have been running on the high side for some time, and I think most investors had been expecting something to happen at some point, even if the timing is never known. Then, we saw the first signs of inflation, which is generally not a portfolio-helper as higher inflation portends higher interest rates, and most financial asset portfolios don't respond well—at least initially—to the expectation of higher interest rates.

And, of course, there was the threat of a US-initiated tariff war, initially targeting steel and aluminum imports from China. While this sounds like it might be a good thing for the steel and aluminum manufacturers here in the US, if you interview most of the economists out there, almost all will tell you that tariffs are a poor tool at best, and are generally destructive to everyone else's overall economic well-being, ours included. As quarter two starts, the next volley in that battle has been already fired, and it appears that both

President Trump and China are digging in their heels. For an amusing 15-second commentary on a true tariff war's effect on the economy, see this link: <https://goo.gl/YKVmi4> I literally laughed out loud. For now, let's hope the Trump tariff plans are only an opening gambit to drive negotiation and not an actual long-term strategy.

Finally, the recent tech sector woes have added to the other drags on the market's performance. Facebook stock has been hit hard by revelations of totally inadequate privacy controls in light of Cambridge Analytica's misuse of illicitly gotten personal information from 50 million Facebook users. That, along with Donald Trump's Twitter-bombing of Amazon, have pulled down tech stocks, many of which are major constituents of the S&P 500.

Of course, all this added volatility and the sharp drop over the last eight weeks of the quarter has unnerved some investors and, as is typically the case, garnered more than its fair share of media attention. That acknowledged, there really is nothing unusual here in what we've seen in the market's performance of late. There are always some threats—real or perceived—that markets face. Historically, and with few exceptions, the headlines of this week, this month, this year, have faded into the background as problems are resolved and individuals and companies go about their business.

And, as the din of news—positive and negative—goes on and on, the great companies of world, the ones we own in our portfolios, find new ways to improve efficiency, create more value for consumers, and we as owners get to share in those gains. music lovers...here's a link to the classic 1980 Talking Head music video, Once in a Lifetime, which features the most memorable use I'm aware of of that phrase: <https://goo.gl/H9mdET>

I hope that spring is off to a good start for you and that you

Quarterly Commentary

First Quarter 2018

are looking forward, as I am, to some sustained spring-like weather. As always, please don't hesitate to reach out if you have any questions or if there is anything we can do for you.

P.S. Here's a quick historical note: In March 2000, the tech-stock laden NASDAQ index reached its all-time high of 5132. By the end of its spectacular crash from then until

October 2002, it would eventually bottom out at 1108, a nearly 80% loss. Not until July of last year(!) would we see the NASDAQ best its March 2000 high. However, when factoring in inflation, it was not until *this past* January 17th, nearly 18 years after its original high watermark, that it would reach 7300 and provide the same purchasing power it had in 2000.

Quarterly Market Review

First Quarter 2018

This report features global capital market performance and a timeline of events for the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

Overview:

First Quarter Commentary

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Select Currency Performance
vs. US Dollar

Real Estate Investment Trusts (REITs)


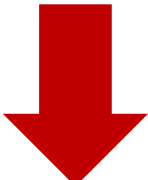




Commodities

Fixed Income

Impact of Diversification

Market Summary

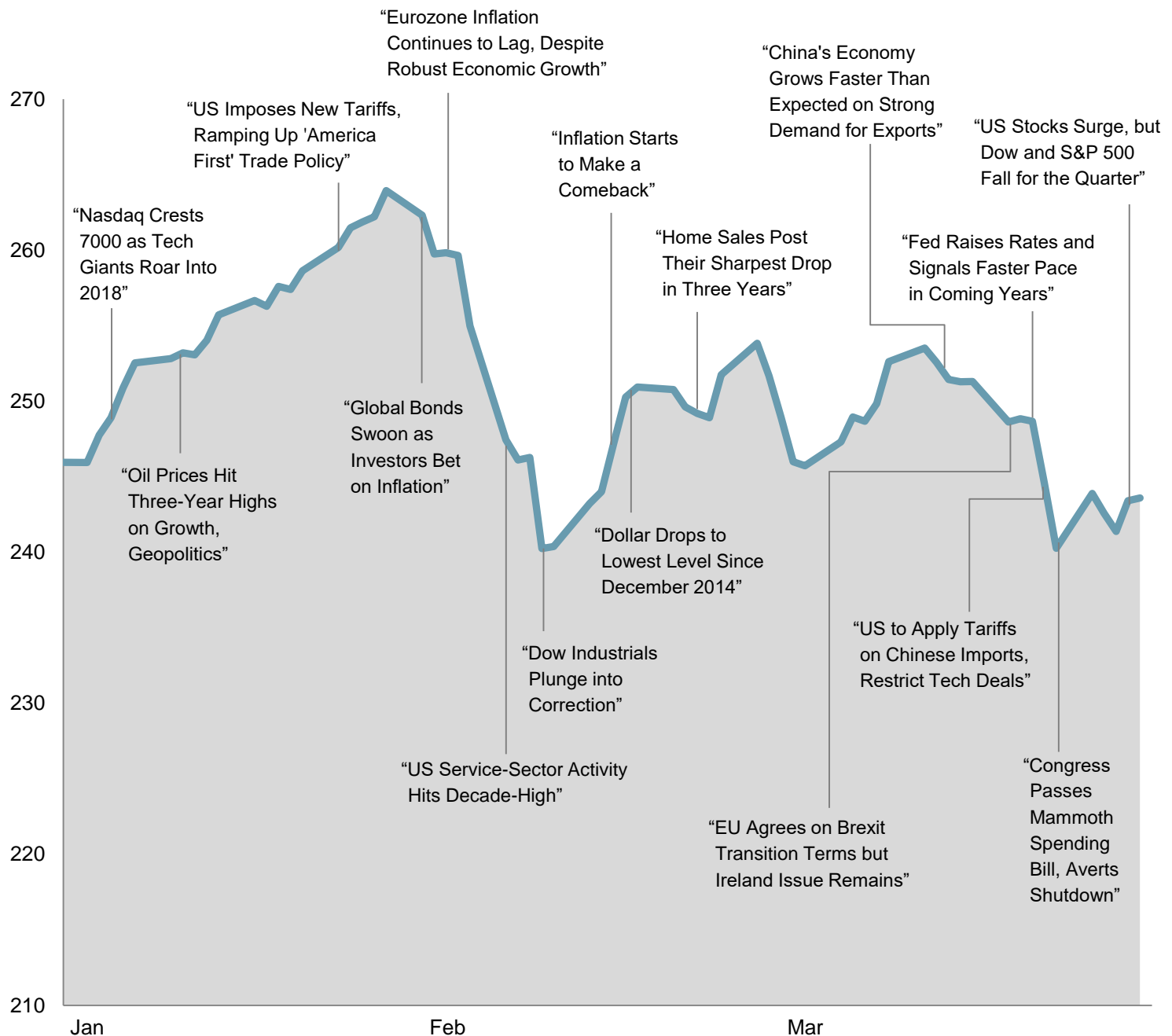
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
Q1 2018	STOCKS					BONDS	
	-0.64%	-2.04%	1.42%	-5.79%		-1.46%	0.94%
							
Since Jan. 2001							
Avg. Quarterly Return	1.9%	1.5%	3.2%	2.5%		1.1%	1.1%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009		4.6% Q3 2001	4.6% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008		-3.0% Q4 2016	-2.7% Q2 2015

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (FTSE WGBI ex USA 1-30 Years [hedged to USD]). S&P data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2018, all rights reserved. Bloomberg Barclays data provided by Bloomberg. FTSE fixed income © 2018 FTSE Fixed Income LLC, all rights reserved.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2018



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

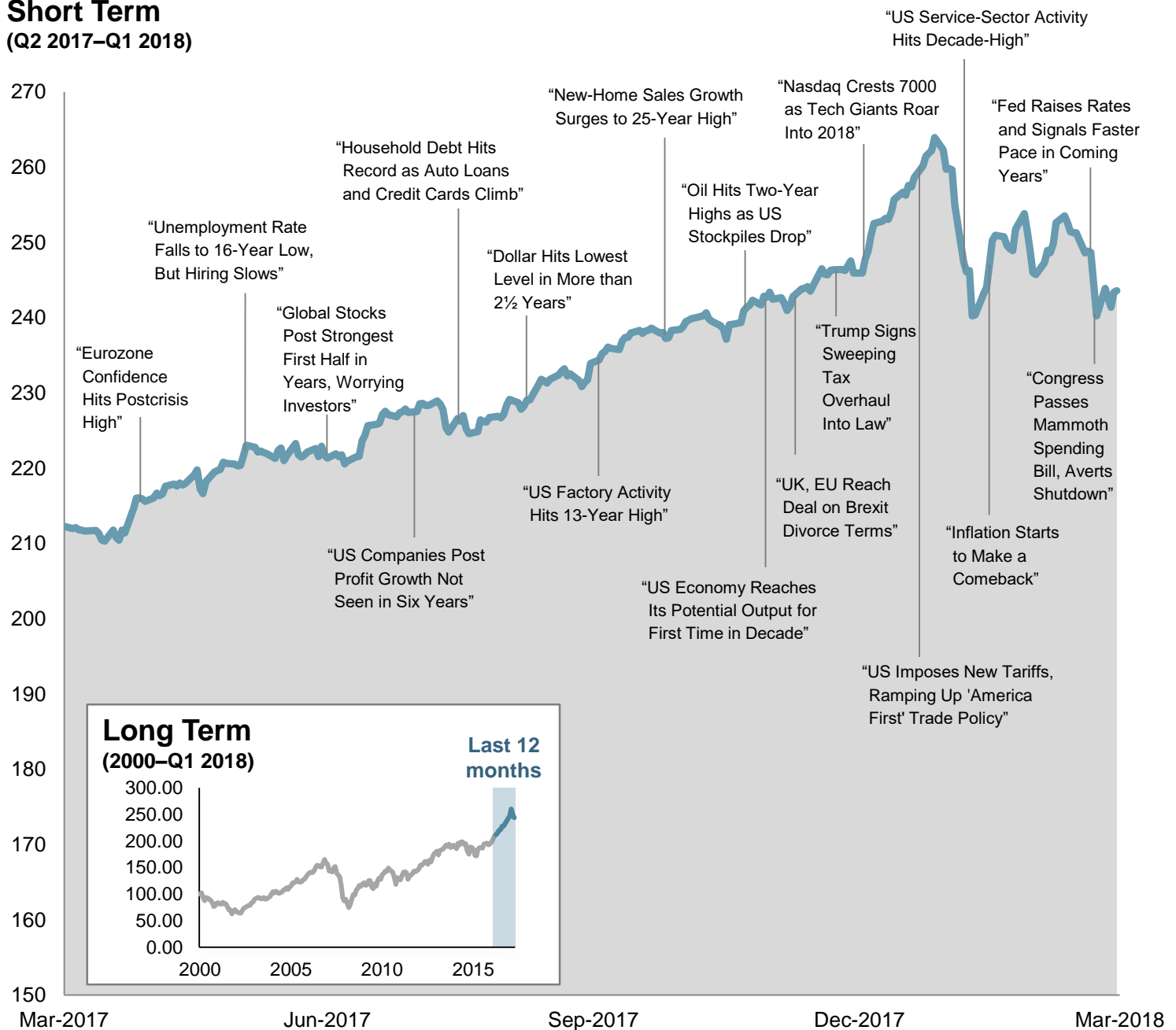
Graph Source: MSCI ACWI Index [net div.], MSCI data © MSCI 2018, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months

Short Term (Q2 2017–Q1 2018)



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2018, all rights reserved.

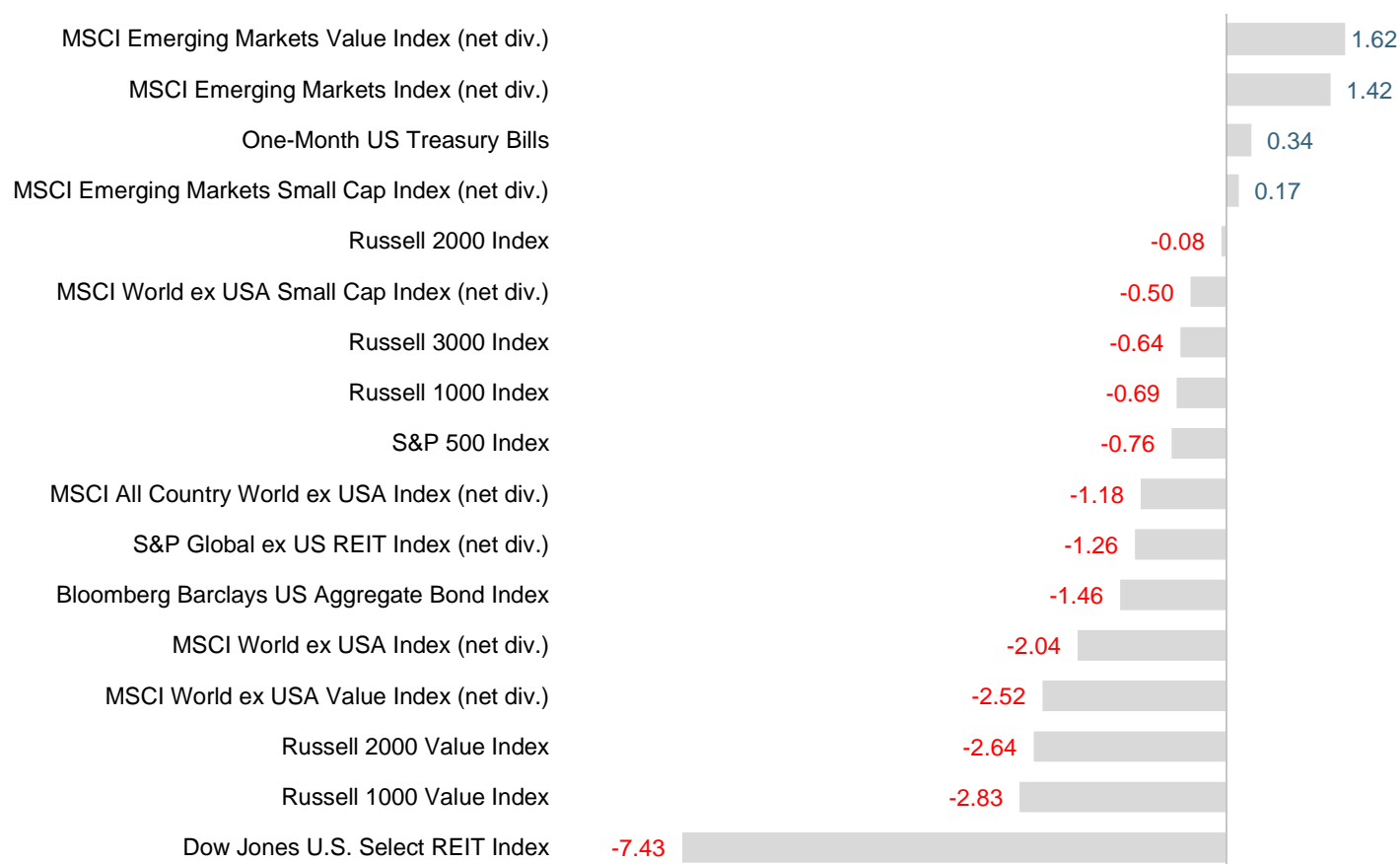
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World Asset Classes

First Quarter 2018 Index Returns (%)

Looking at broad market indices, emerging markets outperformed developed markets, including the US, in the first quarter.

The value effect was positive in emerging markets but negative in developed markets, including the US. Small caps outperformed large caps in developed markets, including the US, but underperformed in emerging markets.



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US Stocks

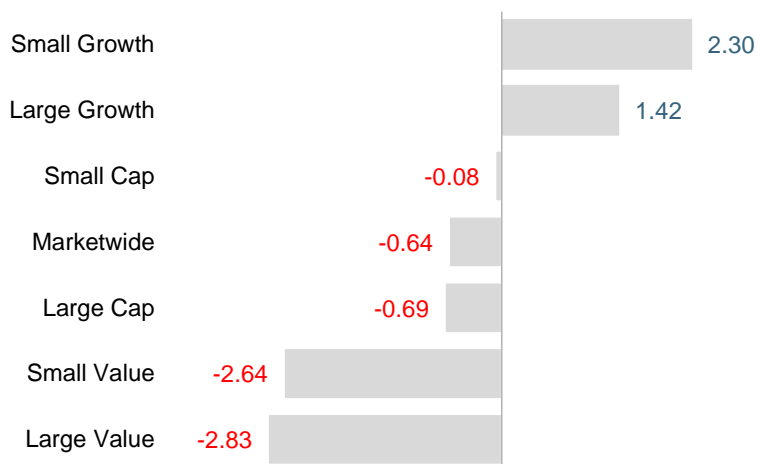
First Quarter 2018 Index Returns

The US equity market posted a negative return for the quarter.

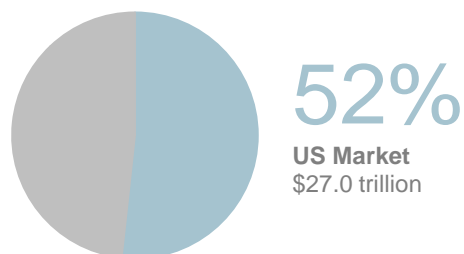
Value underperformed growth across large and small cap indices.

Small caps outperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	13.81	10.22	13.03	9.62
Large Cap	13.98	10.39	13.17	9.61
Large Value	6.95	7.88	10.78	7.78
Large Growth	21.25	12.90	15.53	11.34
Small Cap	11.79	8.39	11.47	9.84
Small Value	5.13	7.87	9.96	8.61
Small Growth	18.63	8.77	12.90	10.95

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is source and owner of trademarks, service marks, and copyrights related to Russell Indexes. MSCI data © MSCI 2018, all rights reserved.

International Developed Stocks

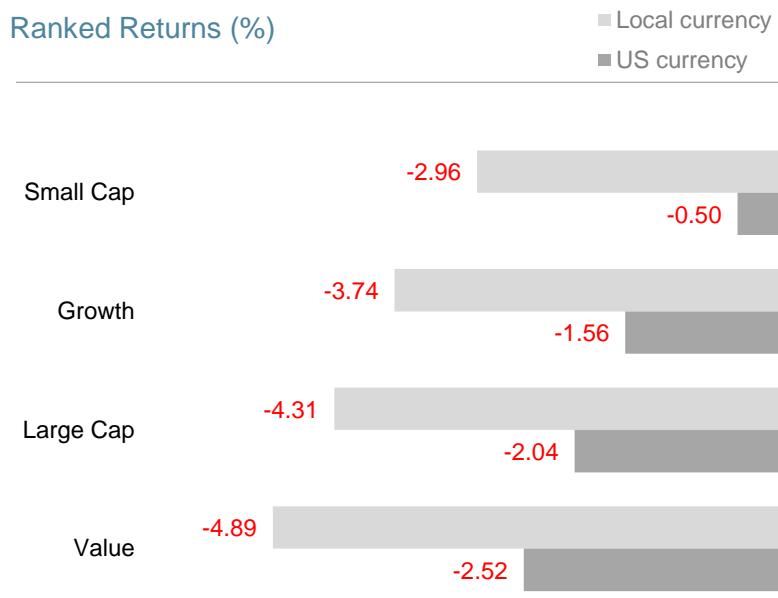
First Quarter 2018 Index Returns

In US dollar terms, developed markets outside the US underperformed the US and emerging markets during the quarter.

Value underperformed growth in non-US developed markets across large and small cap indices.

Small caps outperformed large caps in non-US developed markets.

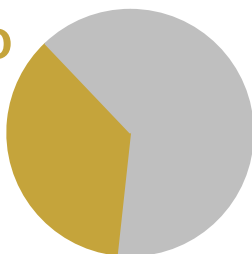
Ranked Returns (%)



World Market Capitalization— International Developed

36%

International
Developed
Market
\$18.9 trillion



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	13.92	5.30	6.04	2.59
Small Cap	21.16	11.30	9.71	5.81
Value	11.66	4.46	5.44	2.08
Growth	16.28	6.06	6.58	3.03

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Emerging Markets Stocks

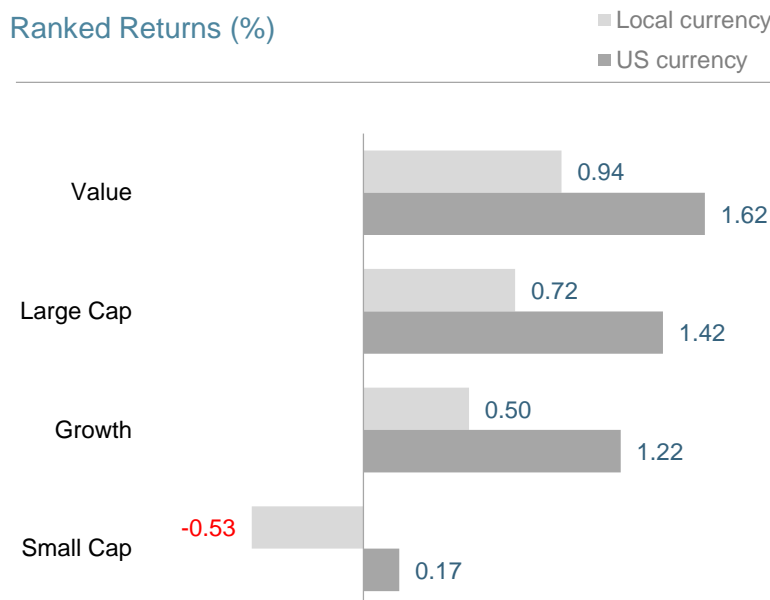
First Quarter 2018 Index Returns

In US dollar terms, emerging markets outperformed developed markets, including the US, during the quarter.

The value effect was positive in large cap indices but negative in small cap indices within emerging markets.

Small caps underperformed large caps in emerging markets.

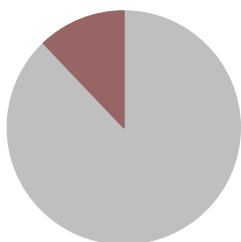
Ranked Returns (%)



World Market Capitalization— Emerging Markets

12%

Emerging
Markets
\$6.3 trillion



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	24.93	8.81	4.99	3.02
Small Cap	18.62	7.23	4.58	4.36
Value	18.14	6.65	2.57	2.07
Growth	31.73	10.89	7.30	3.87

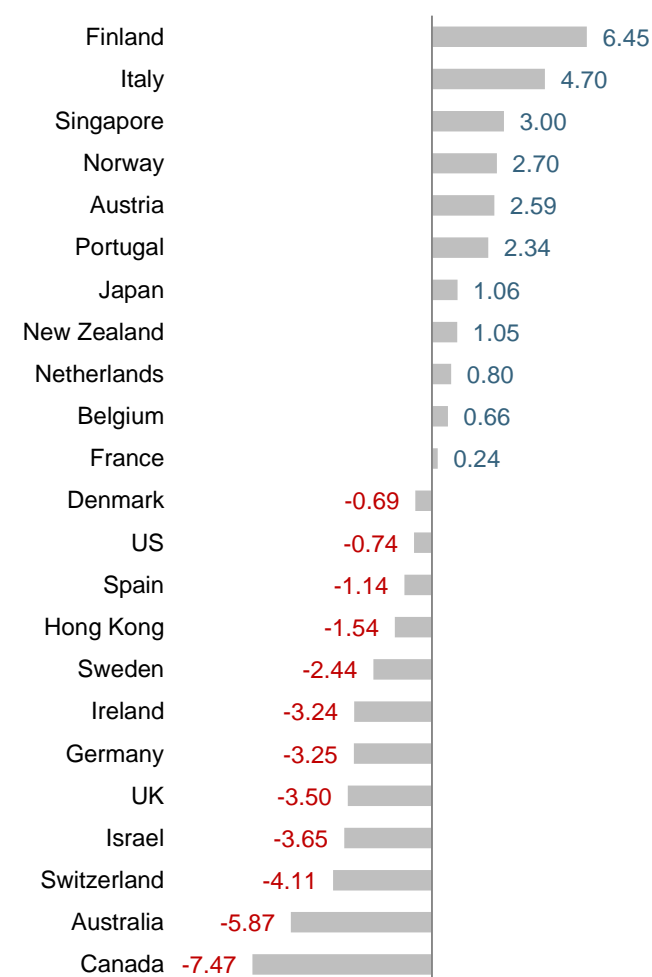
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Select Country Performance

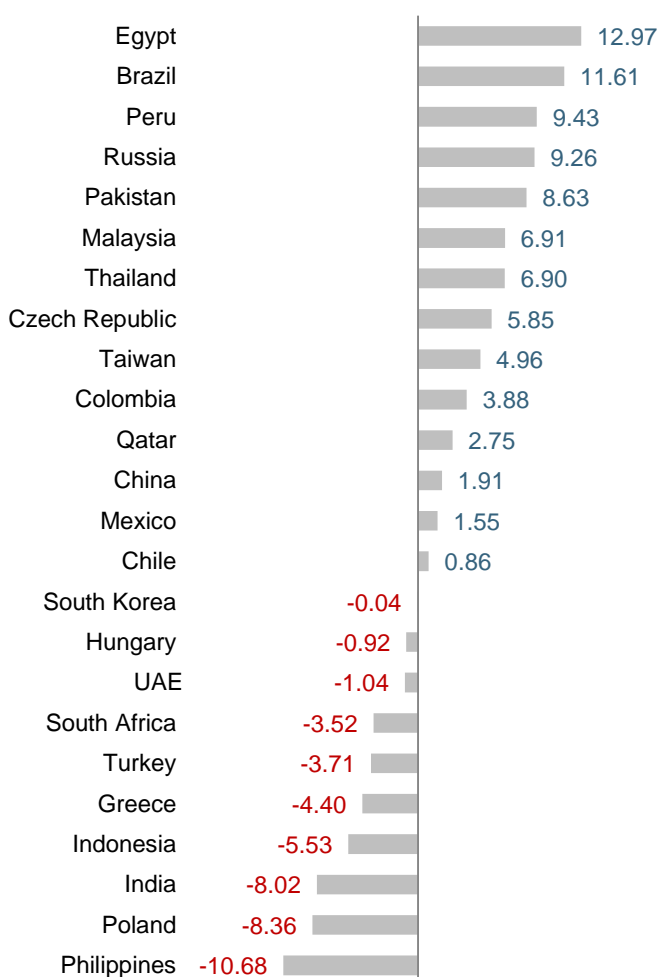
First Quarter 2018 Index Returns

In US dollar terms, Finland and Italy recorded the highest country performance in developed markets, while Canada and Australia posted the lowest returns for the quarter. In emerging markets, Egypt and Brazil posted the highest country returns, while the Philippines and Poland had the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



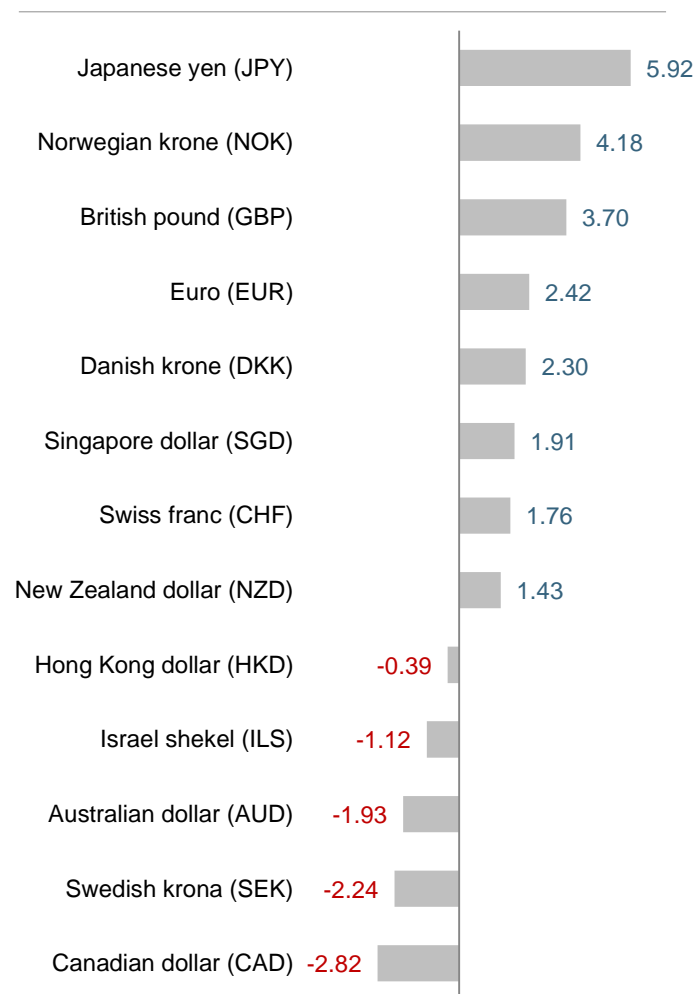
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2018, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Select Currency Performance vs. US Dollar

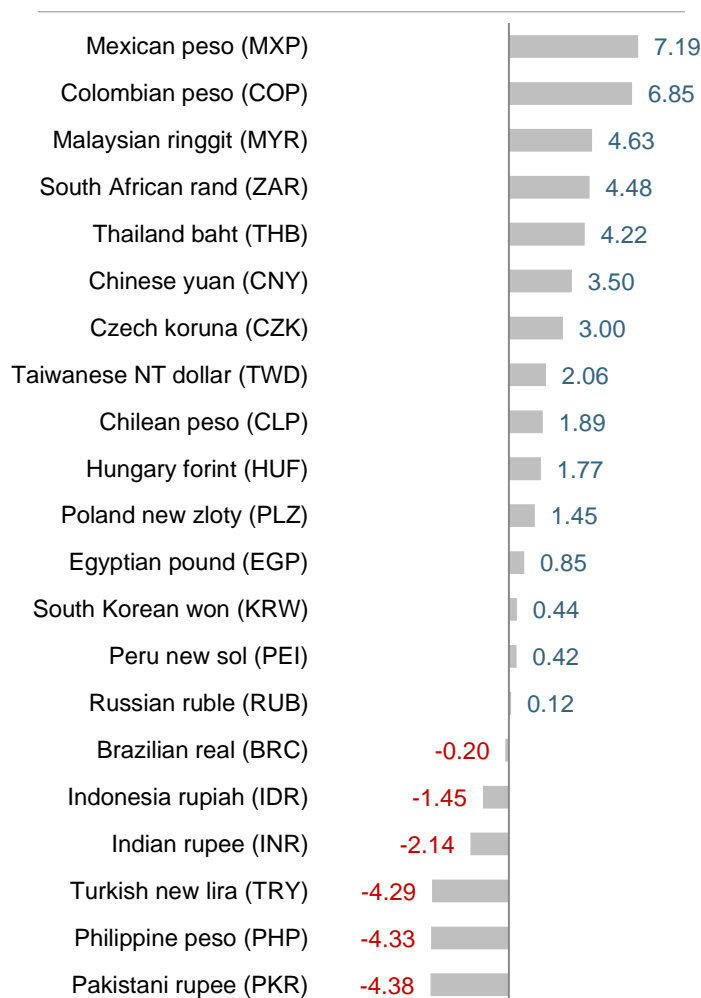
First Quarter 2018

Currencies returns were mixed for the quarter. In developed markets, the Japanese yen appreciated by over 5.5% but the Canadian dollar depreciated approximately 3%. In emerging markets, the Mexican peso appreciated by over 7% but the Pakistani rupee, Philippine peso, and Turkish new lira all depreciated more than 4%.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



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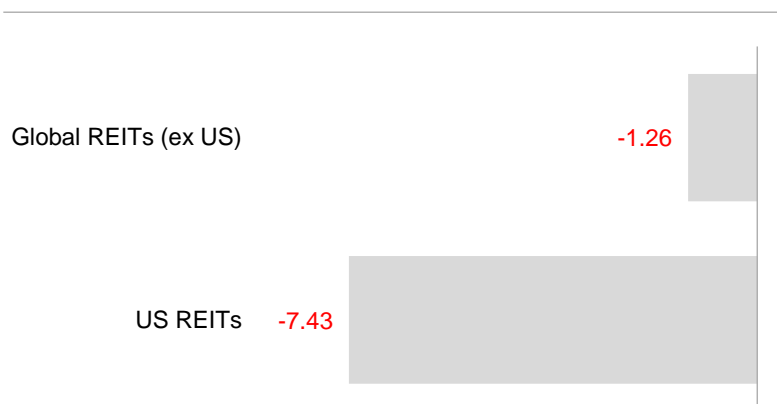
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Real Estate Investment Trusts (REITs)

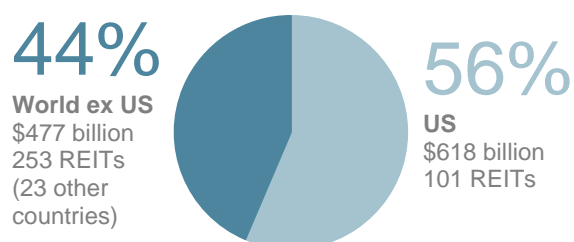
First Quarter 2018 Index Returns

Non-US real estate investment trusts outperformed US REITs in the first quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
US REITs	-3.68	0.74	5.97	6.02
Global REITs (ex US)	10.20	3.59	3.73	2.51

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Commodities

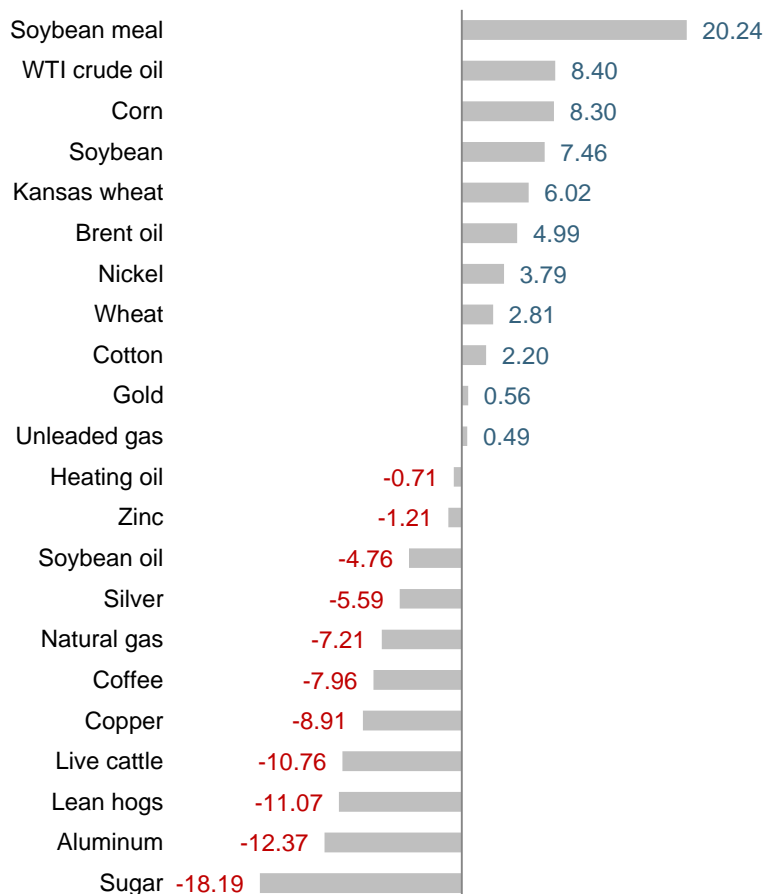
First Quarter 2018 Index Returns

The Bloomberg Commodity Index Total Return declined 0.40% during the first quarter.

The grains complex led performance, with soybean meal returning 20.24% and corn gaining 8.30%. Energy also advanced, with WTI crude oil returning 8.40% and Brent oil advancing 4.99%.

Softs was the worst-performing complex, with sugar and coffee declining by 18.19% and 7.96%, respectively.

Ranked Returns for Individual Commodities (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Commodities	3.71	-3.21	-8.32	-7.71

Fixed Income

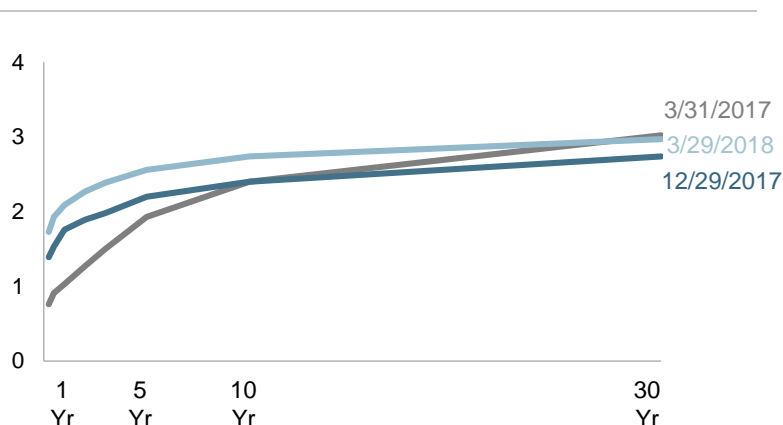
First Quarter 2018 Index Returns

Interest rates increased in the US during the first quarter. The yield on the 5-year Treasury note rose 36 basis points (bps), ending at 2.56%. The yield on the 10-year Treasury note increased 34 bps to 2.74%. The 30-year Treasury bond yield rose 23 bps to finish at 2.97%.

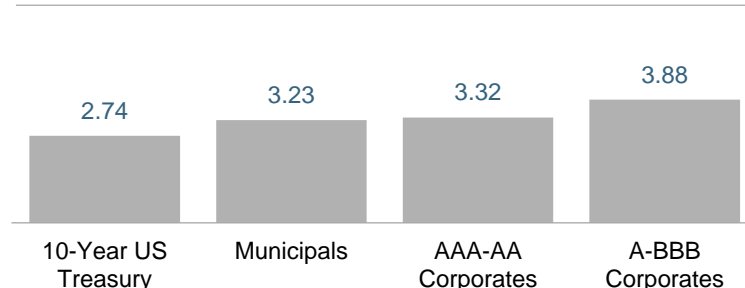
On the short end of the yield curve, the 1-month Treasury bill yield increased 35 bps to 1.63%, while the 1-year Treasury bill yield rose 33 bps to 2.09%. The 2-year Treasury note finished at 2.27% after a yield increase of 38 bps.

In terms of total return, short-term corporate bonds dipped 0.38% and intermediate corporates fell 1.50%. Short-term municipal bonds advanced 0.10%, while intermediate munis declined 1.29%. Revenue bonds performed in-line with general obligation bonds, declining 1.19% and 1.20%, respectively.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Municipal Bond Index	2.66	2.25	2.73	4.40
Bloomberg Barclays US Aggregate Bond Index	1.20	1.20	1.82	3.63
Bloomberg Barclays US Government Bond Index Long	3.53	0.45	3.28	5.75
Bloomberg Barclays US High Yield Corporate Bond Index	3.78	5.17	4.99	8.27
Bloomberg Barclays US TIPS Index	0.92	1.30	0.05	2.93
FTSE World Government Bond Index 1-5 Years	5.77	2.36	-0.37	0.57
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.01	1.06	1.21	1.93
ICE BofAML 1-Year US Treasury Note Index	0.66	0.54	0.42	0.71
ICE BofAML 3-Month US Treasury Bill Index	1.11	0.53	0.34	0.34

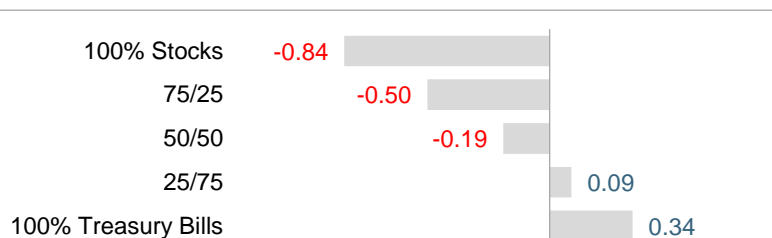
One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&B) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2018 FTSE Fixed Income LLC, all rights reserved. ICE BofAML index data © 2018 ICE Data Indices, LLC.

Impact of Diversification

First Quarter 2018 Index Returns

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Ranked Returns (%)

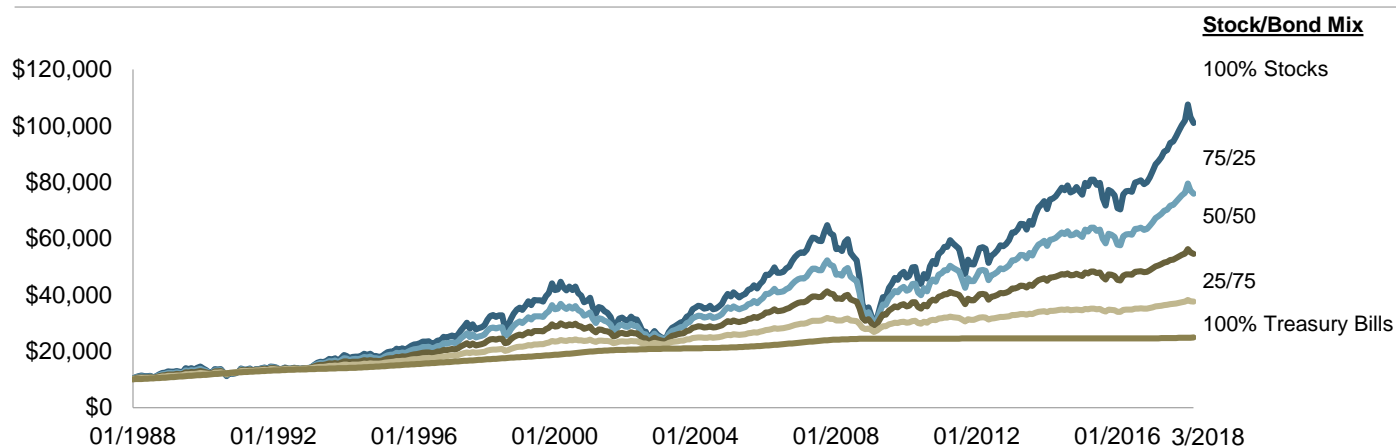


Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
100% Stocks	15.44	8.71	9.79	6.15	16.72
75/25	11.74	6.70	7.44	4.94	12.54
50/50	8.11	4.65	5.07	3.55	8.35
25/75	4.54	2.57	2.68	1.99	4.16
100% Treasury Bills	1.03	0.45	0.28	0.28	0.14

Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2018, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).