

## 1<sup>ST</sup> QUARTER 2018 - ADVISORY COMMENTARY

THE FIRST QUARTER OF 2018 WAS DEFINED BY THE RETURN OF VOLATILITY. THE CBOE S&P 500 VOLATILITY INDEX SAW A DRAMATIC 80.89% INCREASE FROM THE END OF 2017. THIS INCREASE TOOK MANY INVESTORS BY SURPRISE, AS SEVERAL EXCHANGE-TRADED FUNDS THAT BET AGAINST THIS VOLATILITY MEASURE WERE COMPLETELY WIPED OUT AND HAD TO BE LIQUIDATED AT A TOTAL LOSS TO THOSE SAME INVESTORS. WHILE WE'VE BEEN EYEING A RETURN TO A MORE NORMAL VOLATILITY ENVIRONMENT, THE SHEER SPEED OF THIS RETURN WAS A SIGHT TO BEHOLD.

GOLD AND COMMODITIES CONTINUED TO BE SOLID PERFORMERS OVER THE QUARTER, WITH OIL INCREASING 8.11% AND GOLD MOVING UP 2.54%. WE CONTINUE TO BE POSITIVE ON THE COMMODITY SECTOR IN GENERAL, AS WE CONTINUE TO SEE A STEADY MOVEMENT OF CAPITAL INTO THE SPACE.

WE BELIEVE INTEREST RATES CONTINUE TO BE A DRIVING STORY IN THE MARKET, AS MOST RATES CONTINUED TO SPIKE HIGHER, WITH THE U.S. 10-YEAR BOND SEEING ITS RATE MOVE FROM 2.40% TO 2.73%. THIS BRINGS ITS OVERALL INCREASE TO A STAGGERING 0.68% SINCE SEPTEMBER 8, 2017, WHEN IT STOOD AT 2.05%. THESE HIGHER INTEREST RATES WILL LIKELY CAUSE QUITE A BIT OF PRESSURE ON THE HOME-BUYING AND REFINANCING MARKETS, IN ADDITION TO THE CORPORATE BOND MARKETS. CORPORATIONS IN GENERAL AROUND THE WORLD ARE SITTING WITH HISTORICALLY HIGH AMOUNTS OF SHORT-TERM DEBT ON THEIR BOOKS THAT WILL NEED TO BE REFINANCED IN THE COMING 6-12 MONTHS. THE DRAMATIC INCREASE WE'VE SEEN IN THE RATES THAT WILL BE REQUIRED TO BE PAID WILL UNDOUBTEDLY CAUSE UNDERLYING PRESSURE ON MANY CORPORATE PROFIT MARGINS.

IN MID-FEBRUARY, WE MADE SEVERAL CHANGES TO OUR ANCHORED GROWTH MODEL. WE ELIMINATED EXPOSURE TO SHORT-TERM CORPORATE BONDS AND ADDED SLIGHTLY TO OUR LARGE CAP GROWTH, MID CAP GROWTH, SMALL CAP GROWTH AND EMERGING MARKETS EQUITY POSITIONS. WE ALSO RAISED OUR OVERALL CASH POSITION. WE EXPECT TO HAVE OPPORTUNITIES TO REDEPLOY THIS CASH AT A LATER TIME AFTER THE MARKETS HAVE SHAKEN OUT A BIT. BUT, OF COURSE, ONLY TIME WILL TELL.

SINCERELY,



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## 1<sup>ST</sup> QUARTER 2018 - MARKET UPDATE

### EQUITY MARKETS

- S&P 500 INDEX TR **-0.76%**
- DOW JONES INDUSTRIAL AVERAGE TR **-1.96%**
- NASDAQ COMPOSITE INDEX **+2.32%**
- RUSSELL 3000 INDEX TR **-0.64%**
- CBOE SPX MARKET VOLATILITY INDEX **+80.89%**

### FIXED INCOME MARKETS

- BARCLAYS U.S. AGGREGATE BOND INDEX **-1.46%**
- BARCLAYS U.S. TREASURY BOND INDEX **-1.18%**

### ALTERNATIVE INVESTMENTS, COMMODITIES & CURRENCIES

- S&P GSCI TOTAL RETURN INDEX **+2.19%**
- GSCI WEST TEXAS INTERMEDIATE EXCESS RETURN **+8.11%**
- U.S. DOLLAR INDEX **-2.33%**
- GOLD SPOT **+2.54%**
- DOW JONES COMPOSITE REIT INDEX TR **-6.54%**
- CBOE BUYWRITE MONTHLY INDEX **-1.56%**

### ANCHORED GROWTH BENCHMARK **-0.80%**

(70% RUSSELL 3000, 25% BARCLAYS U.S. AGGREGATE BOND INDEX, 5% CASH)

### FOUNDATION TOTAL RETURN BENCHMARK **-0.87%**

(50% RUSSELL 3000, 40% BARCLAYS U.S. AGGREGATE BOND INDEX, 10% CASH)

### INFLATION-PLUS INCOME BENCHMARK **-0.38%**

(40% BARCLAYS U.S. AGGREGATE BOND INDEX, 40% BARCLAYS U.S. TREASURY SHORT INDEX, 20% CASH)

\*SOURCE: KWANTL.COM (4/19/18). INDEXES ARE UNMANAGED AND CANNOT BE INVESTED INTO DIRECTLY. UNMANAGED INDEX RETURNS DO NOT REFLECT FEES, EXPENSES, OR SALES CHARGES. INDEX PERFORMANCE IS NOT INDICATIVE OF THE PERFORMANCE OF ANY INVESTMENT. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.



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THE ECONOMIC FORECASTS MAY NOT DEVELOP AS PREDICTED AND THERE CAN BE NO GUARANTEE THAT STRATEGIES PROMOTED WILL BE SUCCESSFUL.

PRECIOUS METAL INVESTING INVOLVES GREATER FLUCTUATION AND POTENTIAL FOR LOSSES.

THERE IS NO GUARANTEE THAT A DIVERSIFIED PORTFOLIO WILL ENHANCE OVERALL RETURNS OR OUTPERFORM A NON-DIVERSIFIED PORTFOLIO. DIVERSIFICATION DOES NOT PROTECT AGAINST MARKET RISK.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system.

The NASDAQ Global Market Composite consists of 1,450 stocks that meet NASDAQ's strict financial and liquidity requirements, and corporate governance standards. The Global Market Composite is less exclusive than the Global Select Market Composite.

The Russell 3000 Index is a market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. More specifically, this index encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S.

The CBOE SPX Market Volatility Index shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

The Barclays US Treasury Bond Index measures the performance of U.S. Treasury securities that have a remaining maturity of at least seven years and less than 10 years.

The S&P GSCI is recognized as a leading measure of general price movements and inflation in the world economy. The index – representing market beta – is world-production weighted. It is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes.

The GSCI West Texas Intermediate Excess Return Index reflects the returns that are potentially available through an unleveraged investment in the West Texas Intermediate (WTI) crude oil futures contract plus the Treasury Bill rate of interest that could be earned on funds committed to the trading of the underlying contracts.

The U.S. Dollar Index is a measure of the value of the U.S. dollar relative to majority of its most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

Gold Spot refers to the price paid for current delivery of 1 ounce of physical gold.

The Dow Jones Composite REIT Index contains all publicly traded U.S. REITs in the S&P Dow Jones Indices U.S. stock universe that are classified into one of three subcategories—equity, mortgage or hybrid—as defined by the REIT/RESI Industry Classification Hierarchy.

The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index.



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