STRAIGHT TALK

4th Quarter 2017

Steven F. Mosshart AIF®, Chief Investment Strategist   Sonny Mehra, Director of Research

<u>Market Returns</u>

Domestic Large
S&P 500
21.83%

Domestic Small
Russell 2000
14.65%

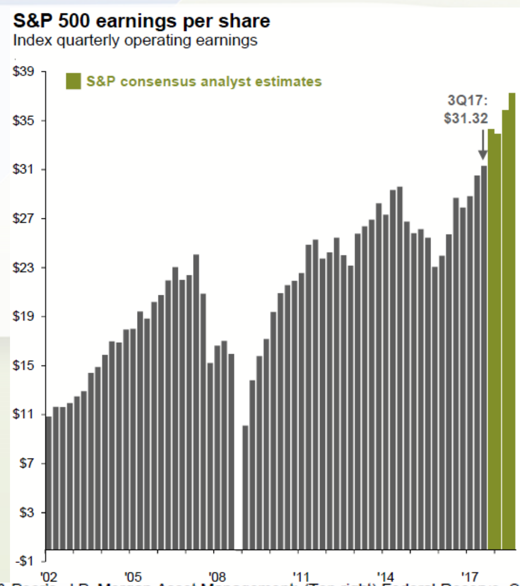
Intl Developed
MSCI EAFE
25.03%

Emerging Markets
MSCI EM
37.28%

Fixed Income
BBgBarc US
Aggregate Bond
3.54%

**Market data is from Morningstar and is through 12/31/17. All returns are with dividends reinvested.*

Stock markets and the global economy ended 2017 on a high note, and the new year is off to a strong start. For the first time since the financial crisis, all major global economies enjoyed a synchronized period of strength, leading to some of the best global stock returns we've seen during this bull market. We expect the recent US tax reform to lead to continued higher corporate earnings (see chart below). This should particularly benefit smaller companies, which are more domestically focused. Additionally, after underperforming for several years, we believe the rebound in international stocks will continue, and lead to a longer term period of better returns relative to their domestic counterparts. After fairly good returns last year, we expect that fixed income markets will face more challenges, as global central banks pull back on easing and gradually look to raise rates. As this happens, we doubt that the historically low volatility that we saw last year will persist and investors would be wise to make sure they are appropriately allocated for the amount of risk they are willing to take.



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Top right) Federal Reserve, S&P 500 individual company 10k filings, S&P Index Alert. EPS levels are based on operating earnings per share. Earnings estimates are Standard & Poor's consensus analyst expectations.

Over the coming quarters Quantitative Tightening will result in the Federal Reserve gradually shrinking its $4.5 trillion balance sheet by an expected $1.5 to $2 trillion. At the same time, we expect the Fed to continue its gradual increase of the Fed Funds rate. Even with the advantage of history, judging the effect of such a change in monetary policy will prove difficult for investors. We will be closely monitoring the impact of these changes in order to appropriately position portfolios. For the time being we continue to favor stocks over bonds, and we are adding to our alternative investments, where possible. This is being done as a way to bring added diversification and to mitigate the risk that both stocks and bonds may simultaneously perform poorly at some point in the future. <u>OVER</u>

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866-401-5238
info@straightline.com

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In our view, few economic excesses exist that would suggest a slowdown in 2018. This comfortable economic backdrop has helped to inspire the current financial market "complacency". The historically low levels of volatility provide evidence of this "complacency." As a reminder, despite this favorable economic outlook, market corrections can occur without recessions, and in many ways we are overdue for such a correction.

As always, this data has already been accounted for in your portfolios and the chance of an upcoming correction will provide, as it has in the past, an opportunity for adjustments that will pay dividends in the long run. The absolute best way to manage money for the distance is to mitigate losses in down cycles and take advantage of the rebounds by not being complacent and just waiting for them to return.

The past year had quite a bit of nervousness about the President's first year in office and the resulting effect on the markets. Many of the self-managed people that we had the opportunity to speak with exited the market and unfortunately did so at what proved to be the wrong time. Everyone was certainly weighing in on what the market would do post-election and some abandoned their well-thought out investment processes in favor of market timing.

The money managers that watch over your accounts (Melnick, Mosshart, Turi and Mehra) are extremely experienced with management experience of over 40, 32, 30 and 11 years, respectively. This collective experience allows us the ability and the stability to understand the long term difficulties with market timing. Managing risk and having the ability to adjust when needed is the best way to manage assets.

We are looking for another good year, but with bumps along the way. The days are getting longer, Spring is coming and we're still staring down at the ground. What could be better? Stay safe and please call if you have any questions.

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