Goldman Lancaster , Inc.
A Registered Investment Advisor

THE FOUNTAINHEAD(?)

HELPING BUSY PEOPLE MAKE SMART FINANCIAL DECISIONS

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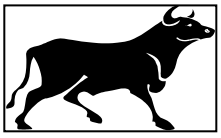
Spring 2018

First Quarter Summary

Markets began the year continuing the optimistic trends of 2017. That didn't last long. The first quarter saw the end of rosy expectations and seemingly limitless investor confidence. January was strong, but then the world changed. Markets dropped in early February, only to bounce and then drop again in March. Volatility reemerged, interest rates rose, the dollar fell and global equity markets retreated. The CBOE Volatility Index (Referred to as the "VIX", a measure that is meant to be forward looking, showing the market's expectation of 30-day volatility in either direction.) began 2018 at 10.95, the lowest first day reading ever. The quarter ended with the VIX almost double at 19.97, a reading well above the historical average. In the equity markets, the S&P 500 was down, breaking the index's streak of 9 consecutive positive quarters. The loss was just the 2nd down quarter in the last 5 years. As has been the case for several years, investors heavily favored growth over value stocks. Consequently, the tech heavy NASDAQ was positive. Smaller companies, represented by the Russell 2000, were essentially flat. Developed international equities were down, but emerging market equities were a relative bright spot with small positive returns. Given the backdrop of steadily increasing rates, fixed income markets were challenged in the first quarter. The 10-year rate increased 0.34% to 2.74%. Short-term rates rose more than longer term causing the yield spread between 10-year and 2-year Treasury notes to contract. At quarter's end, the spread was 0.47%, lower than anytime since October 2007. Historically, a flattening yield curve has been a reliable indicator of future economic troubles. However, in our current weird environment of central bank excess, I don't think the slope of the yield curve is the harbinger of doom that it has reliably been in the past. Reflecting risk concerns, spreads on lower quality bonds relative to Treasuries also increased. Generally speaking, fixed income was negative across the board. The sole exception was bonds with very short maturities. Over the past 12 months, the interest rate on the 2-year Treasury has risen almost exactly 1% to 2.27%. So, now for the first time since the Great Financial Crisis, short-term money earns enough interest that you may actually be able to see your balance grow!



1st Quarter Summary

Total Return %

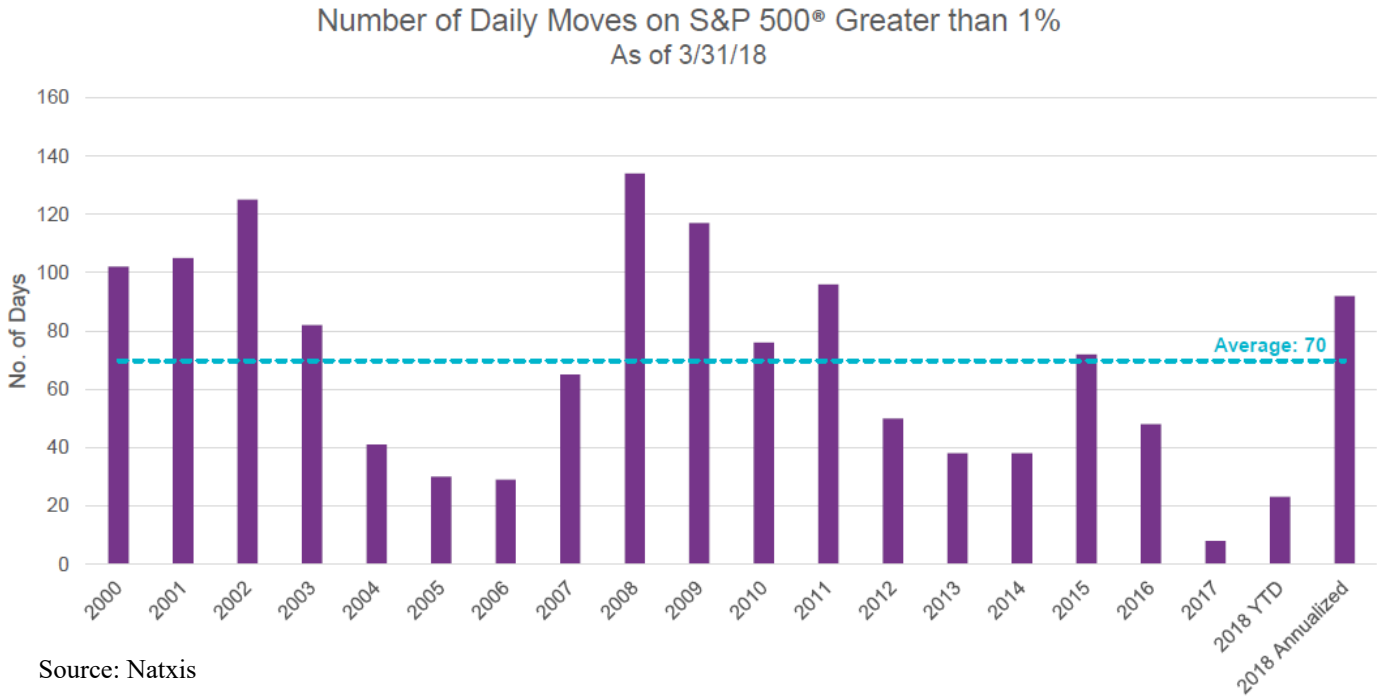
	3 month	12 months
S&P 500	-0.8	+14.1
Nasdaq Composite	+2.3	+19.8
Russell 2000	-0.1	+13.0
MSCI EAFE	-1.6	+14.6
MSCI Emerging Markets	+1.3	+23.5
Barclays U.S. Aggregate	-1.5	+1.2
Barclays High Yield	-.9	+4.2

Treasury Bond Rates	3/29/18	3/30/17
2 year	2.27%	1.28%
10 year	2.74%	2.42%

(Source: US Treasury, LPL Financial Research) Indices cannot be invested into directly. Past results are no guarantee of future performance

The speedy rise in government bond yields this year has unnerved investors. Driven by market fears of a deficit-fueled supply glut, yields have risen significantly. The rate increase is a mix of higher inflation expectations and rising real yields. What is positive is that much of the increase in long-term yields can be explained by the rise in real rates rather than just a change in inflation expectations. In the past, the death knell of a bull market has often been rising interest rates. Higher rates imply generally lower valuations (the price investors are willing to pay for a future stream of earnings) and lower equity prices. However, while we should certainly be cautious, I don't believe that the current rate environment necessarily spells doom for risk assets. If rates have increased because of improved growth expectations, which is what is implied by rising real rates, it bodes well for stronger corporate earnings. That seems to be the case for 2018. As of this writing, the consensus estimated 1st quarter earnings growth rate for the S&P 500 is +17%. That would be the highest since 2011. And, according to LPL Financial Research, S&P 500 earnings growth may approach 20% for the entire year. If that's the case, we could stave off doom and the bull market could continue for a little longer.

The Return of Volatility



Source: Natxis

I've felt like a broken record the past few years warning about increased volatility that never surfaced. How could the end of Quantitative Easing, North Korean nukes, the mess in the Middle East and the election of President Donald Trump not upset investors enough for a significant market pullback? Up through almost the end of this January, the markets took it all in with unshakable equanimity. That's certainly no longer the case! Maybe it's the broken clock analogy, but I was finally proven prophetic this year. The market's unnaturally smooth 14-month post-election period ended abruptly in early February. On February 5, the VIX index had the largest one day increase in its history, rising 116% to 37.3. Investors betting on continued low volatility were rudely awakened. By February 2018, the S&P 500 Index had gone a record-breaking 551 days (about 18 months) without experiencing a 5% drawdown and about 23 months without a 10% decline. Such a long period of calm is highly uncharacteristic. On average the market typically declines at least 10% every 18 months. From Jan. 1, 2010 to Dec. 31, 2016, 12.3% of trading days were up more than +1.0% and 10.6% of trading days were down more than -1.0% . By comparison, all of last year, the S&P 500 gained or lost more than 1% on a single day only eight times. In 2018, as of April 12, there have already been 28 moves of 1% or more. It doesn't stop there though, as there have been seven 2% moves this year. The last time we saw volatility like that in such a short time frame was back in August/September 2015.

With the benefit of hindsight, we can see January 26, 2018 as the most recent market peak. After closing at 2873 on 1/26/18, it took just 13 days for the S&P 500 to fall 10.2% (to 2581). The 13-day "correction," was the fastest correction" in the last 50 years. The possible reasons cited include inflation concerns, worries about rising interest rates, overvalued stocks, fears about global central bank tightening, the possibility of trade wars, and even trading that occurred in some complex investment products. As always, I regard short-term fluctuations as unpredictable random noise driven by the ever-changeable market narrative. Consequently, it's pointless to worry about causality. Regardless, February was a reminder of the sudden, sharp, and often scary nature of downside volatility. As it stands today, the market has yet to recoup the sustained losses since January 26, though it has started to claw its way back. I don't believe this is the start of market Armageddon. I just think we need to be patient, ignore the fulminating self-declared pundits of the media and to remember that volatility is a normal, natural feature of equity investing.

I Actually Read it Somewhere

By the Numbers- 4/2/18
After adjusting for inflation, manufacturing output in the United States is up +62% over the last 30 years, i.e., 12/31/87 to 12/31/17. However, the number of manufacturing jobs in the United States has declined 29% over the same 30 years, falling from 17.8 million to 12.6 million.

361 Capital
28 of the World's Top 100 Scrabble players live in Nigeria.

Carolina Journal
"Tariffs are taxes. They have always been. So when President Donald Trump announced plans to impose costly tariffs on imports of steel and aluminum into the United States, he was threatening to raise taxes on most American consumers and businesses in order to boost the incomes of special interests. Trade protectionism has been and will always be about a few using their political connections to steal resources from the many."

Inside Edition-3/6/18
Meghan Markle's dress when she marries Prince Harry will cost around $400,000. Interviewed by Glamour Magazine in 2016 she said "I personally prefer wedding dresses that are whimsical or subtly romantic."

By the Numbers- 2/5/18
The United States admitted 53,716 refugees into the country during fiscal year 2017 (i.e., the 12 months ending 9/30/17), down from 84,994 refugees in fiscal year 2016. The top 3 countries from where the refugees originated last year are The Democratic Republic of the Congo (9,377), Iraq (6,886) and Syria (6,557).

LA Times 2/26/18
"These Games set a record for the number of free condoms distributed at a Winter Olympics-110,000 or 37.6 per athlete. (Warning: Never use the .6 ones.) It beat by 10,000 the number distributed at Vancouver and Sochi. Organizers don't expect them all to be used but some to be taken home as souvenirs. They probably won't need to be declared at customs."

By the Numbers-2/26/18
Only 37% of all jobs in the United States require education beyond high school, i.e., 63% of American jobs require a high school diploma or less

Things That Probably Only Brad Cares About

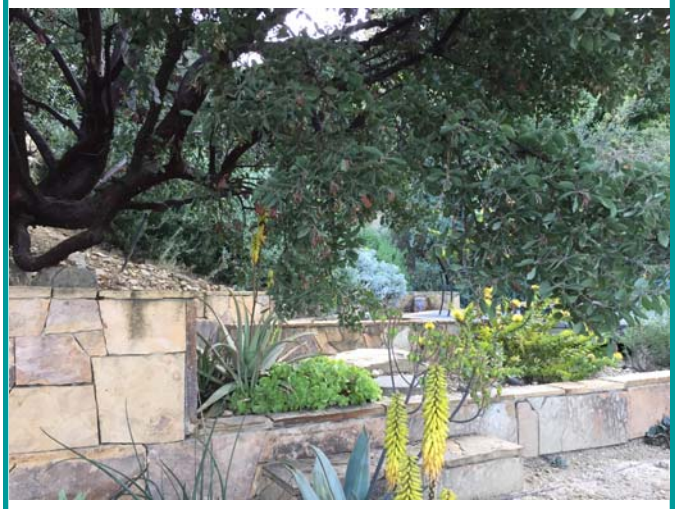
I'm reasonably good at math, numbers and statistical inference. (Undeniably important skills in my chosen profession!) So, the undeniable fact that I'm getting old hasn't escaped me. It's hard to argue that, after being on this planet for 64.5 years, much more of my life is behind me than in front. Isn't that the definition of old? However, even though the conclusion is obvious from the data, and I'm an empiricist at my very core, it's still possible to avoid the mental realization. If you don't see the wrinkles and grey hair, are you really old? It's like the George Costanza line on Seinfeld, "It's not a lie if you really believe it". On my part, to make the lie and self-delusion believable, I avoid mirrors like the plague. I shave blind in the shower, use a comb rarely, and always look elsewhere when passing a mirrored surface. If it wasn't for the aches and pains, I could be 25 in my mind. However, recent weeks have made this self-delusion more difficult. I'm not sure how it happened but my age and cell number seem to have become public knowledge. Over the past month, I've been plagued with a daily barrage of calls offering to 'help" me with looming Medicare decisions. I don't want to be rude to anyone, especially someone trying hard to make a living in a very difficult profession. However, it's becoming increasingly difficult not to lash out at these constant reminders that the end is getting ever closer.

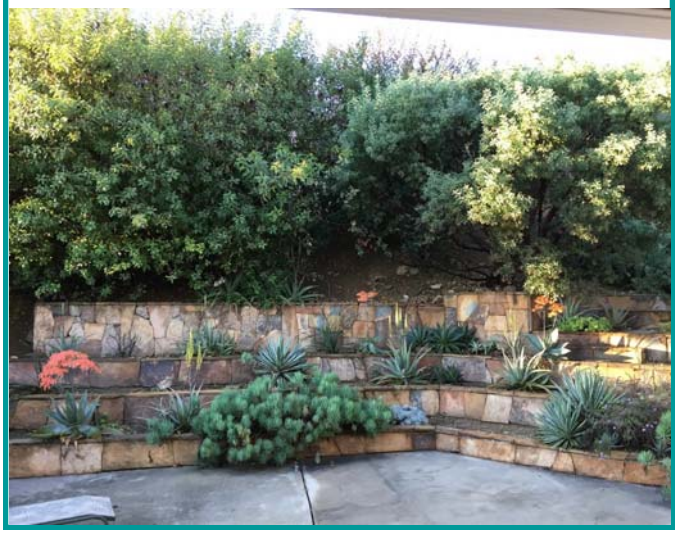
Even if the end is undeniably in view, I'm not yet ready to concede and make too many age related concessions. I'm still a long way from sitting on the couch watching Fox news and Law & Order SVU marathons. I've made compromises though. When the surf is cold and big and there's no easy way to paddle out, I stay out of the water. In my mental calculus, the cost in terms of effort outweighs the potential reward. Maureen loves to remind me of how I used to mock the soft warm water surfers just a few years ago. She finds it hilarious that, at the current level of my excuse-making, I'll be one before too long. I'm a slower skier too. In an effort to regain flexibility, I've been experimenting with yoga. After 50 minutes of yoga voodoo, my back feels great! I'm also practicing mindfulness meditation. Don't worry, I haven't gone hippie or even gotten close to shaving my head and buying a saffron robe. I still firmly believe in the primacy of western linear logic and causal thinking. But, given that my time here is finite, it seems like a good idea to develop a practice of appreciating every aspect of what's left.

The Backyard

Everyone has heard me complain (endlessly?) about the hassle and expense of keeping up with the Little Princess' California native plant fantasies. I rue the day she fell under the sway of her friend Marisa, the native plant Rasputin. However, for a brief period every year, things look pretty good. Now is one of those times.

March 6, 2018





Business Philosophy:

Our objective is to make working with us a pleasant as well as rewarding experience

- We take our responsibilities seriously
- We return calls promptly
- We're nice when someone does call
- We don't lie or mislead
- We do what we say we're going to do.
- We're knowledgeable and current in our discipline
- We admit (infrequent) mistakes and do our best to right the wrong
- We listen to suggestions and take them seriously
- We work in your best interest in the most straightforward and transparent way possible

Thank You ! !

Special thanks to the following people for referring their friends, family and associates

Ray Agee

Brad Lancaster is a Registered Principal with and securities offered through LPL Financial, Member FINRA/SIPC

We moved in March. Same building but new suite. The new address is 301 E Ocean Blvd. #1150, Long Beach CA 90802

Please notify me in writing if you would like a hard copy of our full ADV part 2A brochure or if there are any changes to your financial situation or investment objectives