

2018

Quarter 1

2018 Q1	2018 January	2018 February	2018 March	Year-to-Date
S&P GSCI 2.37	NASDAQ 7.36	Dollar 1.72	T-Bonds 3.03	S&P GSCI 2.37
NASDAQ 2.32	EM 6.77	T-Bills 0.13	S&P GSCI 2.15	NASDAQ 2.32
Gold 1.23	DJIA 5.79	Bond Agg -0.95	Bond Agg 0.64	Gold 1.23
EM 0.72	S&P 500 TR 5.73	Gold -1.67	Gold 0.50	EM 0.72
T-Bills 0.40	S&P 500 5.62	NASDAQ -1.87	T-Bills 0.14	T-Bills 0.40
S&P 500 TR -0.76	S&P GSCI 3.19	S&P GSCI -2.88	Dollar -0.63	S&P 500 TR -0.76
S&P 500 -1.22	Gold 2.43	T-Bonds -3.00	EM -1.87	S&P 500 -1.22
Bond Agg -1.46	EAFE 1.20	EAFE -3.26	EAFE -2.23	Bond Agg -1.46
Dollar -2.39	T-Bills 0.12	S&P 500 TR -3.69	S&P 500 TR -2.54	Dollar -2.39
DJIA -2.49	Bond Agg -1.15	EM -3.87	S&P 500 -2.69	DJIA -2.49
T-Bonds -3.29	T-Bonds -3.23	S&P 500 -3.89	NASDAQ -2.88	T-Bonds -3.29
EAFE -4.28	Dollar -3.43	DJIA -4.28	DJIA -3.70	EAFE -4.28

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weakest performers during the quarter. There were a lot of strong movements throughout the quarter, but from the beginning to the end, most asset categories finished relatively flat.

The U.S. economy is growing above trend at 2.9%, a nice uptick from last quarter's 2.4%. The global economy is growing at 3.7%, also up from last quarter at 3.4%. Inflation has also started to rise and is now holding at 2.4%, up from 2.0% last quarter.ⁱⁱ These rates contributed to the

Last year, the largest intra-year decline we saw for the S&P 500 was 3%. So far this year, we hit 10%. The **average** since 1980 has been 13.8%.ⁱ We have not even reached the average decline that we typically see within a year. Granted, we are only one quarter of the way through this year, but the recent market activity is well within typical ranges.

Our Chief Investment Officer, Chris Gauthier, CFA, started our last investment committee meeting reviewing the above data points and told us that we are experiencing thunderstorms, not a hurricane. I thought this was a great analogy and worth sharing. Thunderstorms are common and they rarely do lasting damage. Hurricanes on the other hand happen less frequently but when they do, they punish landscapes with a devastating blow. The data is currently telling us that the stock market is experiencing thunderstorms.

Commodities (S&P GSCI) and technology stocks (NASDAQ) were the top performing asset categories during the first quarter. Developed international stocks (EAFE) and treasury bonds (T-Bonds) were the

Federal Reserve's recent decision to raise interest rates. They are currently projected to raise rates another two times before year-end.

This quarter we rolled out a new portfolio offering called Diversified NTF ETF-Only Portfolio. TD Ameritrade recently increased the number of no-transaction-fee (NTF) exchange-traded-funds (ETF) from approximately 100 offerings to over 300. This increase gave us sufficient choices to build a properly diversified portfolio. We already use many of these products within our other Diversified Portfolio offerings, but this new offering exclusively focuses on these products that do not incur a trading fee whenever we buy or sell them. We will be reaching out in the next couple of weeks to those clients that we feel this portfolio offering would be a good fit.

Here is an updated list of our available portfolio offerings:

- Diversified Portfolio (conservative, moderate & aggressive): No restrictions.
- Diversified CarbonLITE Portfolio (conservative, moderate & aggressive): Emphasis on reducing the carbon footprint of the portfolio.
- Diversified NTF ETF-Only Portfolio (conservative, moderate & aggressive): Exclusive focus on TD Ameritrade's list of no-transaction-fee ETFs.
- U.S. Stock Portfolio: Portfolio of 20-50 individual companies that exhibit strong value, quality, momentum and yield characteristics.

Know your risk score.ⁱⁱⁱ The score allows us to quantify how much risk we are taking within each portfolio. The lower the score, the lower the risk. The higher the score, the higher the risk. The score ranges from 0-100. A chart is included on the next page showing the portfolio risk scores since 1Q 2017.

I will include the updated score each quarter so those of you who crave more information will be able to get a sense of the relative risk we are taking within each model going forward. In theory, this is similar to our traffic light, but the score is more granular and allows you to see adjustments within a particular traffic light.



Disclosures

ⁱ Guide to the Markets. (2018, March 31). Retrieved April 05, 2018, from

<https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-the-markets/viewer>

ⁱⁱ Grindal, A., & Ayers, P. (2018). Global Manufacturing Loses Momentum, Should We Be Worried? *Ned Davis Research Group Economics*, 1-5. Retrieved April 5, 2018, from www.ndr.com.

ⁱⁱⁱ The software that generates the risk score was created by RiXtrema. RiXtrema calls the risk score a Portfolio Crash Test (PCT).

Key Assumptions and Limitations

Like all investment analysis tools, the PCT is a simulation based on certain assumptions. In simulating various macroeconomic environments and the impact those factors have on portfolio performance, the PCT model assumes that:

- The set of scenarios that occur in real life will resemble the simulated set. If there is a completely new scenario that contradicts presently modeled financial and economic relationships, the tool will be less useful.
- RiXtrema has captured all the key systemic factors.
- Securities betas do not change dramatically in stress events and remain close to what RiXtrema estimates based on their past history.
- The underlying data used in calculating the returns displayed in a PCT report are reliable.

Furthermore, while the PCT tool provides an easy-to-understand way to determine the risk profile of a particular portfolio, it is important that investors understand the tool's limitations, including the following:

IMPORTANT: The projections and other information generated by the Portfolio Crash Test tool regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

- Portfolio Crash Tests do not forecast the likelihood that any particular scenario will come to pass.
- Because the tool's scenarios are updated from time to time, the results of the Portfolio Crash Test may vary with each use and over time.
- Performance results factored into the tool are calculated over many years; small changes can create large differences in future results.
- The Portfolio Crash Test is designed to be used with portfolios containing at least 5 different investments. Any risk assessment tool involves imprecision, and this imprecision may grow if the tool is applied to a single security or just a few securities.
- Portfolio Crash Tests do not select investments for you. You cannot use this tool alone to determine which securities to buy or sell or when to buy or sell them. Before making an investment decision, consult with your investment professional.
- This Portfolio Crash Test report does not provide legal, tax or accounting advice. Consult appropriate professionals for advice that meets your specific needs.
- In calculating the returns displayed in a Portfolio Crash Test report, RiXtrema relies on a variety of third-party sources for pricing information, mutual fund and ETF data, economic data and the like. While RiXtrema believes these sources to be reliable and the data to be accurate, it does not guarantee that this is so.