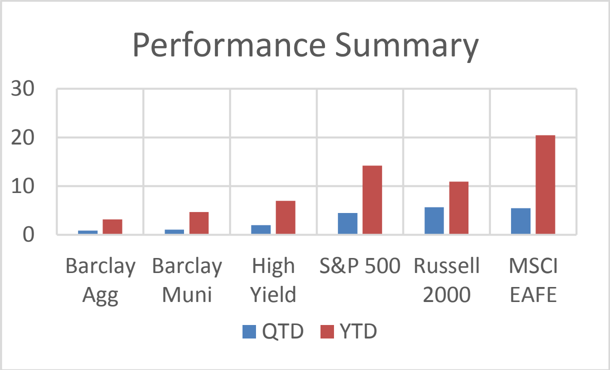

Volatility tailed off in the third quarter, as global stocks steadily climbed higher. The S&P 500 was up 4.48% for the quarter, posting new all-time highs. Tax reform has taken center stage and gave some support to the rally towards the end of the quarter. As a result of the 'Tax Trade' and rising interest rates, small-cap stocks performed slightly better rising 5.67% for the period. Growth stocks continued their dominance over value stocks, and finished up 5.9% versus 3.11%, respectively. ***Overall, the economy has stayed on a slow and steady growth pace. The devastation from the hurricanes affected some of the recent economic data points, but the markets shrugged it off.*** Similar trends extended to international markets, as global growth helped foreign developed stocks to finish the quarter up 5.47%. Emerging market stocks fared even better, up 8.04% during the third quarter. Core bonds finished with a modest gain of 0.62%, as yields across the board were slightly lower. High-yield bonds were up 1.98% as credit spreads tightened; near the lows of this cycle.

Slow and Steady: ***The current U.S. expansion is impressively now in its ninth year***. Although growth in this economic cycle has been slower than previous expansions. ***Trend growth has averaged 2% since the Great Recession, below the 3% growth historically experienced. The bright-side of slow growth is there are few signs of economic overheating, which could potentially extend this cycle to become the longest expansion in U.S. history.*** This slow but drawn out growth dynamic has proven to be supportive of risk assets and may continue for a while. However, when the macroeconomic environment is as good as it get and valuations get stretched it is usually a good time to exercise caution, avoiding the most crowded trades and reviewing risk levels in your portfolio.

Year of the G.O.A.T.? ***As of October 5th the S&P 500 closed at 2,552. If it climbs to 2,717, less than 7% away, it will become the Greatest (postwar) cyclical bull market Of All Time, surpassing even the 1990-1998 gains of 302% (excluding dividends).*** With the current slow and steady macroeconomics in place it's possible this rally will continue and become the G.O.A.T, however we shouldn't lose sight that all previous rallies of this magnitude (since WW II) have eventually been followed by a bear market.

Bear Necessities: ***It is important to note that 10% stock market corrections are normal and long-term investors shouldn't be overly concerned by their occurrence.*** For example, on average, the market has seen a peak-to-trough decline of more than 14% each year over the past 37 years. However, in 28 of those 37 years (75% of the time) the market went on to finish the year in positive territory. ***What investors should be concerned about are bear markets, which usually fall into one of three categories. The most common are cyclical bear markets, which usually relate to the economic cycle; event-driven bear markets are triggered by an exogenous shock (i.e. war or oil price shock), and structural bear markets, caused by structural imbalances and financial bubbles.*** According to a Goldman Sachs study cyclical and event-driven bear markets generally see prices fall around 30% while structural bear markets tend to see 50-60% declines. Their longevity varies from an average of 6 months, 2 years and 3-4 years for event-driven, cyclical and structural bear markets, respectively. Recovery times vary with event-driven bear markets tending to revert to their previous market highs after around 1 year, cyclical ones usually take 4 years and structural bear markets take an average of 10 years. ***Predicting a bear market is no easy feat and according to the study most individual indicators (fundamental and technical) aren't all that useful, either because they don't consistently work or have too many false positives.*** However, there are combinations of factors that are a pretty good barometer of bear market risk. They are stock market valuation, ISM (or economic growth momentum), unemployment, inflation and the yield curve. In aggregate these measures are elevated for bear market risk, primarily due to valuation, but not at a level that suggests a bear market is right around the corner. In fact, there are a couple of reasons why bear market risk may be kept at bay. First, structural factors may be keeping inflation lower than in the past, and central bank forward guidance is reducing interest rate volatility and keeping rates relatively low. Second, financial imbalances and leverage in the banking system have been reduced post the financial crisis. ***If we had to keep an eye on just a couple of factors for signs of rising bear market risk, we'd be watching inflation and Fed Policy. Watching closely how the Fed increases interest rates and manages the reduction of their balance sheet.***

Asset Class Views

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↓	We are underweight US large cap based on historically high valuations and better investment prospects in other asset classes. At some point, we expect volatility to increase in the U.S. and valuations will revert to lower levels.
U.S. Small/Mid Cap	↔	We upgraded small-cap stocks in September from underweight to neutral. Given their relative performance relative valuation improved and we expect them to benefit from rising rates, a rallying US dollar and any tax cuts.
International Developed	↑	Our upgrade of international stocks in January was well timed and performance has been strong relative to other asset classes. We are maintain our overweight rating recommendation due to lower relative valuations, an improving economic outlook and the potential for profit margins and earnings to recover to normalized levels.
Emerging Markets	↔	EM was again a top performer for the quarter. We have some concerns about geopolitical and trade risks, however investors willing to ride out the volatility should be well rewarded over the long-term.
Fixed Income		
Investment Grade	↓	Our long-term expected returns are low, however we recommend keeping some exposure for disciplined risk management and diversification purposes, depending on your risk tolerance.
High-Yield Bonds	↓	High-yield bonds spreads have narrowed substantially the past few years and cautions investors their risk profile is more comparable to stocks than core bonds. We prefer to get our growth from stocks and our safety from core bonds
Municipal Bonds	↔	Our outlook is similar to investment grade bonds, however they remain attractive for high tax-bracket investors.
TIPS	↑	Inflation continues to be relatively benign, however given the low level of interest rates available on core bonds the case for holding some TIPs as a hedge against inflation makes sense. Especially in tax-deferred accounts.
Floating-Rate Loans	↑	We view FRLs as reasonably attractive and the increase in LIBOR rates make them more attractive as a hedge against rising interest rates. We suggest sticking with the highest quality to limit credit risk.
Emerging Markets	↔	We expect money to continue to search for higher yields in EM bonds, however we are not seeking any direct exposure, recognizing that some of our managers own EM bonds and we are comfortable with those decisions.
Alternatives		
Absolute-Return/Alternatives	↑	We like this asset class and believe it can improve the risk/reward profile of portfolios that hold traditional asset classes. We are very selective in the funds we will use as most liquid alternative strategies have disappointed.
REITs	↔	Valuations in the REIT asset class are full. Similar to high-yield bonds, if we stay in a low volatility environment with low interest rates they will perform well. We think modest allocations make sense.
Commodities/Gold	↔	We view gold as an "insurance" asset and recommend holding small positions as a hedge; for long-term investors we believe now is a good time to start building small positions in commodities, especially on dips.

U.S. Stocks
Market Performance, Third Quarter 2017

Index	Q3 2017	YTD
S&P 500	4.48%	14.24%
Russell 1000	4.48%	14.17%
Russell 1000 Value	3.11%	7.92%
Russell 1000 Growth	5.90%	20.72%
Russell Midcap	3.47%	11.74%
Russell 2000	5.67%	10.94%

Source: Morningstar

- Risk assets had a strong quarter and have surprised the skeptics with double digit year-to-date returns.
- The S&P 500 was up 4.48%, including dividends. Small-cap stocks outperformed for the quarter, up 5.67%. Most of the small-cap gains came in September as investors began to factor in tax reform and the potential for higher interest rates and a stronger U.S. dollar.
- Growth stocks continued their outperformance during the quarter and now have a huge YTD advantage over value stocks, 20.72% vs. 7.92%. In a slow-growth economy, investors have been willing to pay-up for growth.

International Stocks
Market Performance, Third Quarter 2017

Index	Q3 2017	YTD
MSCI EAFE	5.47%	20.47%
MCSI EME	8.04%	28.14%
MSCI BRIC	13.92%	33.19%

Source: Morningstar

- Foreign developed market stocks again generated great returns, up 5.47%. While emerging market stocks performed even better and now have YTD returns approaching 30%, a welcome but unsustainable pace.
- We upgraded foreign stocks in the first quarter based on relatively attractive valuations and an improving global economy. Near-term we wouldn't be surprised if their performance cooled-off, however long-term we still believe they will outperform U.S. Stocks.

Fixed Income

Market Performance, Third Quarter 2017

Index	Q3 2017	YTD
Vanguard Total Bond Index	0.62%	3.07%
Barclays Muni Bond	1.06%	4.66%
Barclays US Corp High-Yield	1.98%	7.00%
JPM GBI- EM Global Diversified	3.55%	14.28%
iShares TIPS Bond	0.65%	1.66%
BofA Merrill Lynch 3 month Treasury Note	0.25%	0.51%

Source: Morningstar

- Core bonds were relatively flat for the quarter, up 0.62%. Municipals again did a little better and continue to make sense for investors in a high tax bracket.
- Investment grade and high-yield bonds outperformed as credit spreads continued to tighten. In a low volatility environment this trend may continue, however investors should recognize the hidden risks in high-yield bonds and not be overly aggressive.
- We recommend investors, depending on risk tolerance, own some high quality bonds for diversification and disciplined risk management.

Alternative Assets

Market Performance, Third Quarter 2017

Index	Q3 2017	YTD
PIMCO All Asset All Authority	3.05%	9.74%
AQR Diversified Arbitrage	0.41%	4.98%
Gateway	2.26%	7.74%
Dreyfus Global Real Return	(0.42%)	3.53%

Source: Morningstar

- The roster of liquid alternative funds we use is small, and in general their performance has been good. Our expectation for alternative assets is that they can outperform bonds over the full market cycle without substantially increasing portfolio risk.
- We continue to recommend moderate allocations for the long-term and believe they will improve the risk-adjusted return of portfolios.
- We expect to increase our allocation to alternatives in the coming months.

Appendix:

Benchmark Definitions

U.S. Equity		**Description**
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3 month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
Gateway	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.