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Investment Review and Outlook
First Quarter 2018

Stocks took investors on a roller coaster ride during the quarter. U.S. stocks began the year with an exceptional upswing, supported by positive economic reports and strong corporate earnings. Investors began to fret, though, as an inflation reading pointed to the possibility of a yet tighter Fed policy, implemented by the new Fed chairman, Jerome Powell. Then in March, the market was stunned by the possibility of a trade war with China and revelations of Facebook's user data-sharing activities.

For the quarter, U.S. large company stocks declined 0.8% (S&P 500), small company stocks declined 0.1% (Russell 2000 index), and international stocks dropped 2.2% (EAFE index). Bonds were not a good place to hide this quarter as interest rates rose (and bond prices declined) in reaction to inflation fears. In the quarter, the Lehman Aggregate bond index declined 1.5%.

Investors do not like uncertainty. Clearly, a trade war with China and its immediate effects on the technology sector are not good for the stock market, at least in the short term. Retaliation by China will further affect a broad array of market sectors. Our situation is not bleak, though. Corporate balance sheets remain generally healthy, the economy has continued to grow, and corporate-earnings expectations have climbed, reflecting the new tax plan's reduction in the corporate tax rate.

Market volatility is something we have not seen in many months. This was the first negative quarter in the past ten quarters for U.S. stocks. Prior to this quarter, investors have been very complacent. They forgot that a stock market "correction" of 10% or more is a normal occurrence. Yet, it may be difficult for investors to comfortably "stay the course" when so much disturbing news, both real and fake, hits their smartphones all day long. The key is to continue to hold a diversified portfolio with the goal of lessening volatility in uncertain markets.

Stock market corrections during economic expansions do not necessarily lead to recessions or bear markets. In reality, market corrections are usually short-term events. It will be uncomfortable, and the financial press reporting will make it feel even worse than it is, but if the economic expansion continues (and we believe it will), the next pullback or correction could be a great buying opportunity. Make sure your IPS (Investment Policy Statement) is up-to-date and that your asset allocation accurately reflects your tolerance for risk.

As always, please call us anytime if you have any questions or if we can assist you in any way.

Best Regards,

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