TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

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Quarterly Insights

EXECUTIVE SUMMARY

2016 - A Year Of Surprises

In 2016, the domestic S&P 500 Index was up 11.96% and led most global markets. Emerging Markets (+11.19%), driven by Brazil and Russia, was in line with US performance. Europe, dragged down by the BREXIT vote and the rise of populism, considerably lagged (+1.34%). We reflect on 2016 as a year of surprises, highlighted by the BREXIT vote and a Trump victory coupled with Republican control of the House and Senate. The key to managing well in 2016 was to maintain discipline. Bond performance was mediocre. The Barclay's bond index finished the year up 2.67%.

We Believe The S&P 500 Index Will Rise 20% In 2017

We believe the S&P 500 Index will rise 20% in 2017. With the new Administration, we anticipate significant changes in corporate tax rates, financial market regulations, infrastructure spending, the health care system, and efforts to save US jobs.

We concur with the Standard & Poor's forecast of a 20% earnings increase in 2017. The current price earnings (PE) ratio of the S&P 500 Index is 24, in line with its average (25) over the last 25 years. The market will go up with higher earnings and an historical PE.

John Barber, CFA
Chief Investment Officer

Dan Laimon, MBA
Managing Member

Michael Harris, CFA
Vice President

Fourth Quarter 2016

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2017 - Looking Ahead

Stock Outlook: We Believe The S&P 500 Index Will Rise 20% In 2017

We believe the S&P 500 Index will rise 20% in 2017 (this is not a misprint, see page 4!). Markets embraced the new Administration in Q4 (+3.82%). Investor enthusiasm may carry over in 2017. Why? The political gridlock that has frustrated everyone over recent years is gone. Federal decisions can much more likely be made and implemented quickly. We anticipate significant changes in corporate tax rates, financial market regulations, infrastructure spending, the health care system, and efforts to save US jobs. It will take a while before these actions (if passed) are proven good, bad or indifferent. In the meantime, given the backdrop of an already-decent US economic and profit outlook, we expect continued market momentum.

Trump Objective #1: Cut US Corporate Tax Rate From 35% to 15%

The current federal corporate income tax rate in the US is among the highest in the world at 35%. President-elect Donald Trump plans to slash the top business tax rate from 35% to 15%. The goal is to improve the competitive position of US corporations within the global economy and stop the relocation of US companies for tax purposes. A lower tax rate is potentially a huge plus for the equity markets since it can quickly boost company earnings by as much as 30%. Most S&P 500 companies do not have the highest tax rate - the median effective tax rate was 25% in 2015. The larger a company's tax rate, the more it stands to benefit from a tax cut.

Cutting US Corporate Tax Rate From 35% to 15% Can Add As Much As 30% To A Company's Bottom Line

	35% Corporate Tax Rate	15% Corporate Tax Rate
Pre-Tax Earnings	$100	$100
Tax	($35)	($15)
After-Tax Earnings	$65	$85
Bottom Line Benefit Of Tax Cut		**+30.77%***

* Bottom Line Benefit Of Corporate Tax Rate Cut From 35% to 15% = (85 - 65) / 65 = 30.77%

Trump Objective #2: Reduce Financial Markets Regulation

If Hillary Clinton became President and Democrats gained control of the Senate, the financial industry would have faced further legislation (led by Senator Elizabeth Warren) to curtail its influence and pressure its profits. This did not happen. The election of Donald Trump, combined with Republican control of the House and Senate, should ease regulatory pressure on banks. The combination of lower regulations and higher interest rates to enhance the lending spread (see Bond Market Spotlight, page 6) bodes well for Financials.

Passed after the 2008 financial crisis, the 2010 Dodd-Frank Wall Street Reform Act forced banks to hold more capital reserves and undergo annual "stress tests" to prove they could survive a severe business downturn without help from taxpayers. President-elect Trump has repeatedly stated he would remove much of the law. Instead of being defensive, the big banks can now lobby to soften/remove the Dodd-Frank Act. Community and regional banks may also benefit as they will likely push to be exempt from many financial regulations.

Going forward, banks should also be under less scrutiny regarding their products and services. The Consumer Financial Protection Bureau, established under Dodd-Frank and a major Republican target, is anticipated to lose its federal funding.

Trump Objective #3: Boost Infrastructure Spending

In Donald Trump's acceptance speech, he signaled an ambitious US infrastructure program - "highways, bridges, tunnels, airports, schools, hospitals" - in an effort to create jobs and promote economic growth. His plan, though very short on details at this point, calls for $1 trillion in spending over a 10 year period. The industries that would benefit most include construction and materials.

Trump Objective #4: Repeal Obamacare

The Affordable Care Act (Obamacare) was signed on March 23, 2010 and boosted the health care industry. More people could buy insurance and access medical care and drugs. Donald Trump has promised to repeal Obamacare. Right after Trump's win, pharmaceutical, insurer and biotech stocks rose (investors anticipated relief from drug price scrutiny) and hospitals that did well under the Act fell. Repealing Obamacare may prove tough to implement. New polls show far more Americans (both Democrats and Republicans) would like to keep or expand the healthcare law than repeal it. The details of what will replace the Act are vague. Handicapping the winners and losers within the Healthcare sector will not be easy.

Trump Objective #5: Save American Jobs

In an effort to save American jobs, Trump has vowed to raise tariffs on countries such as Mexico and China. We don't think it will happen due to historical precedent. The Tariff Act of 1930 (the Smoot-Hawley Tariff) raised US tariffs on over 20,000 imported goods to record levels. With the ensuing retaliatory tariffs by its trading partners, the Act was a disaster. American exports and imports fell by more than half. Many economists view the Act as a major contributor to the depth and length of the global Depression.

Trump has also threatened to leave NAFTA (North American Free Trade Agreement) and the TPP (Trans-Pacific Partnership). Without US participation in the proposed 12-country TPP, the TPP would be ineffective. China could be the big winner since it is not part of the TPP. As the world's second largest economy, we believe China has enough insular economic growth to withstand a potential trade war with the US. As well, it can draw on its TPP-deficient neighbors should the TPP fall flat.

2017 - Looking Ahead

We are enthusiastic about stocks in 2017. Given the new political climate, here are our completed and projected portfolio adjustments (for discussion regarding completed adjustments, see Your Portfolio, page 9):

Looking Ahead - 2017 Portfolio Strategy Adjustments

Trump Objective	Anticipated Portfolio Action
Cut Top Corporate Tax Rate From 35% to 15%	Maintain High Level Of US Exposure
Reduce Financial Markets Regulations	Increase Financials
Boost Infrastructure Spending	Increase Industrials & Materials
Repeal Obamacare	Reduce Health Care
Save American Jobs	Increase China Reduce Europe

The Math: Why We Believe The S&P 500 Index Will Rise 20% In 2017

Each year numerous managers offer their outlook for the upcoming year in the stock market. These forecasts are notoriously bad in hindsight and often comical reading. We believe the S&P 500 Index will rise 20% in 2017 - and we are hard pressed to find anyone else who agrees with us! Despite the obvious risks to our reputation, we will detail the quantitative rationale regarding our expectations for all to see.

TriVant's S&P 500 Index Prediction For 2017: It Is Lonely At The Top		
2017 Prediction (Starting Point: 2238)	**Appreciation % (Approximate)**	**Firm(s) (Source: CNN Business Insider)**
2300	+ 3%	Merrill Lynch, Credit Suisse, UBS, Goldman Sachs
2325	+ 4%	CitiBank, Jefferies
2350	+ 5%	Bank of Montreal, Deutsche Bank
2400	+ 7%	JP Morgan
2450	+ 10%	Oppenheimer
2700	+ 20%	TriVant

Forecasting Starts With A Baseline

We use historical average returns to get an indication of the range of reasonable predictions. For the last 100 years, the S&P 500 Index has averaged 10% with nearly a 20% standard deviation (see Remember The Baseline!, Quarterly Insights October 2016, page 2). This means two-thirds of the historical returns are between a loss of 10% and a gain of 30%. These will act as the outside limits of our forecasting range.

Market Valuation Is Determined By Discounting Future Profits

The difficulty with market valuation is that it is tough to project both future profits and the appropriate interest rate to discount those profits. In the table below, historical earnings are broken down by sector. It is notable how sectors can get hit but tend to recover. We think the Standard & Poor's forecast of a 20% earnings increase in 2017 (going from $108.86 to $130.92 earnings per share) is more likely to happen than many believe. Earnings should rebound strongly in Energy and we think Financials could do better than forecast due to a combination of a higher net interest margin (rising interest rates) and more leverage (deregulation). These forecasts include the possibility of upcoming infrastructure investments and other new policies.

Standard & Poor's Historical Earnings And 2017 Forecast										
Operating Income	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017 Est.**
S&P 500 Index	**$49.51**	**$56.86**	**$83.77**	**$96.44**	**$96.82**	**$107.31**	**$113.01**	**$100.45**	**$108.86**	**$130.92**
Consumer Discretionary	$5.28	$10.96	$18.20	$20.81	$22.27	$25.12	$27.70	$30.44	$33.16	$35.94
Consumer Staples	$17.17	$18.36	$19.45	$21.38	$22.59	$23.95	$24.16	$24.32	$25.36	$27.54
Energy	$50.93	$17.26	$35.21	$47.94	$44.30	$42.35	$42.93	($13.71)	($1.75)	$16.88
Financials	($21.24)	$4.40	$14.82	$16.23	$16.44	$21.07	$21.96	$23.01	$24.28	$27.73
Health Care	$24.47	$26.40	$28.90	$31.08	$31.53	$32.43	$35.79	$38.72	$44.68	$55.30
Industrials	$21.18	$14.22	$18.41	$20.96	$22.28	$24.88	$26.83	$28.00	$27.57	$30.07
Technology	$16.12	$17.48	$26.25	$31.44	$32.69	$33.58	$26.99	$37.97	$38.89	$49.25
Materials	$8.09	$7.09	$13.33	$16.20	$14.67	$14.04	$15.86	$8.49	$13.69	$18.49
Telecom	$8.21	$7.22	$7.36	$6.85	$3.38	$12.31	$7.21	$12.15	$10.12	$12.55
Utilities	$12.25	$11.50	$12.34	$12.47	$11.97	$12.15	$13.22	$11.25	$14.05	$14.36
Real Estate	N/A	N/A	N/A	N/A	N/A	$3.31	$5.34	$5.45	$6.72	$4.98

A Price Earnings (PE) Ratio Is A Measure Of Valuation

A stock Price Earnings (PE) ratio is calculated as stock price / company earnings (over the last 12 months). Market multiples such as PE ratios offer a short-cut to gauge the proper price. We rely on the baseline to get an indication of how much investors pay for $1 of earnings. This number has risen over time as our economy has evolved from a manufacturing-based economy towards an information-based economy. The average PE ratio over the last 100 years is around 16 (investors pay $16 for $1 of earnings). Over the last 25 years, the average PE ratio is 25 (investors pay $25 for $1 of earnings). Many media sources quote a baseline PE of 16 to gauge market attractiveness. The appropriate baseline PE is 25 and the current PE ratio is 24 (June 30, 2016).

Interest Rates Affect Valuation

Interest rates are a key factor in stock market performance.

	Interest Rates Rise	**Interest Rates Fall**
Cost of Debt	Rises	Falls
Value of Earnings	Fall (discount rate is higher)	Rise (discount rate is lower)
Bonds vs. Stocks	Bonds relatively more competitive	Bonds relatively less competitive

Dividends Add To Return

Expected dividends matter. In the last few years, S&P 500 Index dividends have averaged between 1% and 2%. Valuation must be adjusted (upward) for dividends.

Putting The Pieces Together For Our 2017 S&P 500 Index Market Prediction

Here is how we derived our 2017 prediction of 2,700 for the S&P 500 Index (an increase of 20%).

Factors To Consider (5)	**The Math**	**Implied Level: S&P 500 Index**
Historical returns are 10%. Current market level is 2,238.	2,238 * (1.10) = 2,462	2,462
Forecasted earnings for 2017 are $131. Average PE = 25.	131 * 25 = 3,275	3,275
Rising Interest Rates lower values by 15%. Offset by higher profits of 10%. Net increase of 5%.	2,238 * (1.05) = 2,350	2,350
Market Forecast - low expectation of a 5% return.	2,238 * (1.05) = 2,350	2,350
Corporate Tax Cut - increases earnings by 15%.	2,462 * (1.15) = 2,831	2,831
The average (equal-weighted) level of the 5 factors above		**2,654**
Dividends have recently averaged between 1% and 2%	Add allowance for dividends	**2,700**

What Could Throw Off Our Prediction? A Lot Of Things!

Many assumptions and expectations have played a role in deriving our 2017 market prediction of 20% for the S&P 500 Index. Bear in mind that our prediction is an entertaining exercise but far from a statement of fact! There are a lot of things that could throw off our prediction, including surprises in any or all of the following: Fed actions, a trade war, commodity prices, domestic politics, global politics, level of corporate tax cuts, level of financial deregulation, level of infrastructure spending, Trump's approach to repeal Obamacare, and actual versus anticipated company profits. We view our 20% prediction as a total crapshoot and hope we are right!

"I don't know how to **predict** the stock market, I don't know how to **predict** interest rates, I don't know how to **predict** business. All I know is if I buy the right kind of business at the right price with the right people I'll do well over time. In stocks it's very hard to know when something will happen and it's very easy to know what will happen" Warren Buffett

Bond Market Spotlight

2016 Ended Up As A Mediocre Year In The Bond Market

The Barclay's Capital US Aggregate Bond Index, a broad-based representation of bond performance, fell 3.29% in the Fourth Quarter but finished the year up 2.67%. This is a better end result than 2015 when the index was up 0.57%. Through Q3, the Barclay's Bond Index was +6.16%. Bonds fell in Q4 amidst the "Trump Rally" (money shifted from bonds to stocks) and a Fed rate hike.

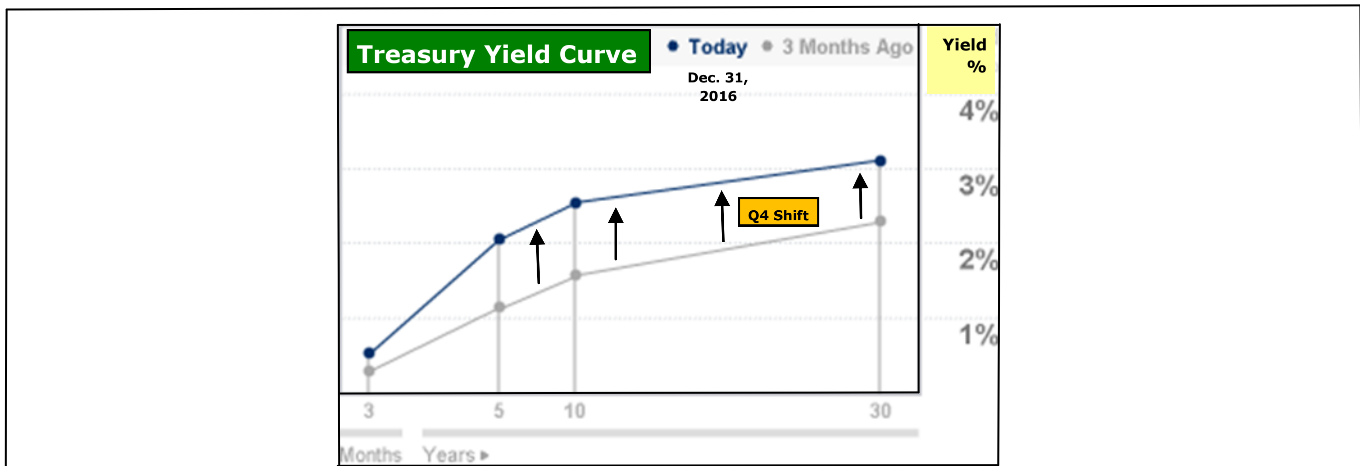
Key US Interest Rates	Jan. 1, 2016	Dec. 31, 2016	Change
Federal Reserve Board Funds Target Rate	0.25%	0.50%	+ 25 basis points
5-Year Treasury (Constant Maturity)	1.80%	1.93%	+ 13 basis points
10-Year Treasury (Constant Maturity)	2.31%	2.45%	+ 14 basis points
30-Year Treasury (Constant Maturity)	3.04%	3.06%	+ 2 basis points

Note: 100 basis points (bp) = 1.00% Source: Telemet

Good News: Interest Rates Are Rising

The Fed raised its target rate from 0.25% to 0.50% on December 14, and it forecasts three additional hikes in 2017. Bear in mind the Fed previously forecast rate hikes for 2016 that did not materialize (due to fragile global market conditions, a strong dollar and the risk of over-tightening). Conditions are better today than a year ago. The economy grew at an annualized rate of 3.2% in Q3, unemployment has fallen to 4.6%, and current inflation (1.7%) is still below the Fed's 2% target. We expect further Fed rate hikes.

The yield curve shifted upward in the Fourth Quarter by a considerable amount. We view higher interest rates as good news for investors. Higher rates allow for better portfolio positioning regarding disciplined asset allocation, risk control, and meeting income needs. As your portfolio manager, we seek safe and adequate income-producing assets. The lower the yield environment, the tougher they are to find.



Further Good News: Bonds Now More Attractive As We Rebalance Your Portfolio

Stocks considerably out-performed bonds in 2016. In balanced portfolios, the relative weight of stocks versus bonds increased. To bring portfolio target asset allocation back in line, we sell stocks to buy bonds ("rebalance"). Bonds are more attractive now than at the end of Q3 (prices are down, yields are up).

Your Portfolio

We made several portfolio adjustments in the second half to respond to changing market conditions. In July, we bought General Dynamics Corp. (symbol: GD), a leader in the defense industry. In August, we added Emerging Markets exposure for the first time in almost three years by purchasing iShares Edge MSCI Minimum Volatility Emerging Markets (symbol: EEMV). In October, we bought Pulte Group Inc. (symbol: PHM), one of the largest homebuilders in the US. In November, we added Martin Marrietta Materials Inc. (symbol: MLM), the second-largest producer of construction aggregates in the US. Along the way, we reduced Health Care by selling Myriad Genetics (symbol: MYGN), Allergan PLC (symbol: AGN), and a portion of Novo Nordisk (symbol: NVO).

With eight consecutive years of positive S&P 500 Index performance (2009 - 2016), our longer-term clients have huge unrealized gains in their taxable accounts with little (if any) opportunity to realize losses. When we inevitably make portfolio adjustments, we will try to be as sensitive to taxes (realized gains) as possible. Please let us know if you require any reports to prepare your tax returns.

We had small gains in 2016 with the relatively conservative bond component of your portfolio. This added to the relatively larger gains in your stock component. We will maintain our conservative bond stance for now.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress. Thank you for your continued confidence in TriVant.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

John Barber, CFA	Dan Laimon, MBA	Michael C. Harris, CFA
Chief Investment Officer	Managing Member	Vice President

Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.

2016 - The Year In Review

2016 - A Year Of Surprises

We reflect on 2016 as a year of surprises where, in spite of being a wild ride, the S&P 500 Index beat our initial forecast. The S&P 500 Index rose 11.96% in 2016 (we anticipated a 6% rise in our Quarterly Insights January 2016 report). In Q1, the Fed did not raise rates as anticipated, oil prices fell 28% and subsequently rose 41%, and the S&P 500 Index fell more than 10% before rising to positive territory. With stable rates, Telecom and Utilities sectors flourished, while Financials languished under stable rates and energy loan exposure. The major surprise in Q2 was the BREXIT vote, which temporarily shook the overall market but especially hurt European stocks. Q3 was surprise-free and the market rose with minimal volatility. However, Q4 had the biggest surprise of all - a Trump victory coupled with Republican control of the House and Senate. The S&P 500 Index surged 3.82% in Q4 with the Financials sector (+20.48%) leading the way. We see longer-term US election effects on the market (see page 2, 2017 - Looking Ahead).

1. Huge Regional Performance Disparity

US performance was in line with Emerging Markets (EM) in 2016, although Brazil (+66.24%) and Russia (+54.82%) drove EM performance versus China (0.90%) and India (-1.43%). However, European performance lagged considerably due to the rise of populism and its resulting political instability (see page 9).

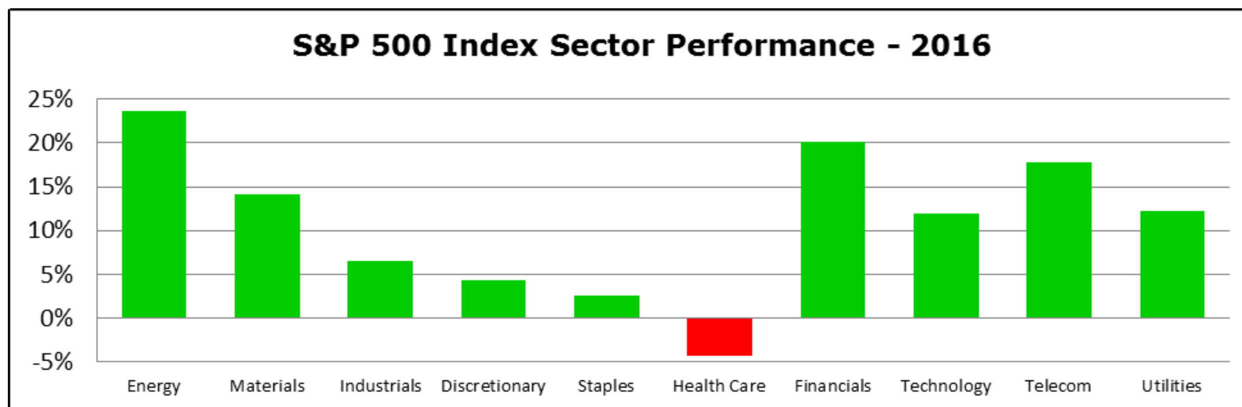
Equity Index Performance

Index	2016
S&P 500 (Domestic)	**11.96%**
MSCI EAFE (Foreign) *	**1.00%**
MSCI Emerging Markets	**11.19%**
MSCI EMU (European Monetary Union)	**1.34%**
MSCI Japan	**2.38%**

* Europe, Australia and the Far East

2. Wide Range Of Sector Performance

Only four out of 10 sectors out-performed the S&P 500 Index: Energy, Financials, Telecom, and Materials. Industrials, Discretionary, and Staples were positive yet considerably lagged. Health Care was the lone sector "in the red".



The Rise Of Populism

We just saw Donald Trump win the election by promising to "Make America Great Again". His message also included that he will "no longer surrender this country or its people to the false song of globalism". Britain's vote in June to leave the European Union ("BREXIT") was an indictment on income inequality, immigration, and the European Union (see The Brexit Vote: A Strategy Game Changer, Quarterly Insights July 2016, pages 2-4).

"Populism" is defined as an ideology/political movement that mobilizes the population (often the lower classes) against an institution or government, usually in the defense of the underdog or wronged. Most common in democratic nations, populism was the biggest story in 2016. What drives populism? There are many factors. First, slower economic growth lowers support for globalization. Second, income inequality also lowers support - educated people might be alright, but blue collar workers are often struggling. Third, one of the best predictors for populism is a belief that "things were better in the past". Fourth, cultural factors play a role - many Westerners, particularly older ones, liked their countries as they were and never asked for immigration. Fifth, social media communication tools such as Facebook and Twitter accelerate populism.

Portfolio Considerations Regarding Populism

USA

President-elect Trump has highlighted that America's workers are harmed when firms move production to cheaper locations offshore. He has proposed an up-to 35% tariff on the products of any company that moves its production abroad. We believe trade war rumors are exaggerated (see page 3). Tariffs would be disruptive, making goods more expensive for American consumers (inflation). American firms would reduce their efficiency and competitiveness, which would discourage new investment and hurt workers' wages. Also, tariffs would encourage an aggressive response from key trading partners (Canada, Mexico, China).

Europe

Following Britain's lead, nationalists are gaining ground in Europe. The momentum is now with nationalist parties including Hungary's Fidesz, Poland's Law and Justice Party, Austria's Freedom Party, Sweden Democrats, and the Netherlands' Party For Freedom. In France, there is a growing possibility that Marine Le Pen, the Leader of the National Front, could be elected next year. Compared with other Europeans, French voters are strikingly opposed to globalization and international trade, and few think immigrants have had a positive effect on their country. Neither the euro nor the European Union would survive without France.

China

China does not face the rise of populism we have seen in the US or Europe. As the world's second largest economy, China has the insular growth to withstand any potential trade war with the US. The threat of Trump tariffs has, in our view, undeservedly hurt the Chinese stock market in Q4 (-7.07%). If tariff threats subside as we anticipate (see page 3), China will look attractive.

Portfolio Considerations Regarding Populism	
Region	**Portfolio Consideration**
USA	Maintain Exposure
Europe	Reduce Exposure
China	Increase Exposure