TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

January 2018

Quarterly Insights

EXECUTIVE SUMMARY

2017 - A Remarkably Smooth Market Ascent

In 2017, the domestic S&P 500 Index was up 21.83% and was in line with other developed markets. Our 2017 market prediction for the S&P (20%) was dead-on. Emerging Markets led in 2017 (+37.28%), primarily driven by China (+54.07%). Only one sector significantly out-performed the S&P 500 Index: Technology (+37.54%). We reflect on 2017 as a year of a remarkably smooth market ascent in the midst of constant political turbulence. In order to out-perform the S&P 500 Index in 2017, it was literally imperative to have some exposure to the high-running "FANG" stocks (Facebook, Apple, Netflix, and Google). Fortunately we did.

We Believe The S&P 500 Index Will Rise 6% In 2018

We believe the S&P 500 Index will rise 6% in 2018. The Fed has hiked rates four times in the last 14 months. Another three rate hikes are anticipated in 2018. We have entered a period of restrictive monetary conditions (a situation where both the Fed Funds Rate and Fed Discount Rate are rising in tandem). Historically (1966-2013) under these conditions, the S&P 500 Index has lagged its baseline in terms of average annual performance (6% versus 10%). We believe portfolio adjustments are in order.

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Fourth Quarter 2017

In This Issue

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Stock Outlook: We Believe The S&P 500 Index Will Rise 6% In 2018

We believe the S&P 500 Index will rise 6% in 2018. Recent tax reform has lowered the US corporate tax rate from 35% to 21%, which will immensely benefit US companies. Market deregulation measures already taken by the Federal government should provide positive tailwinds. Donald Trump's ambitious US infrastructure program will now be brought to the forefront. In this environment, we have

- A healthy economy (Merrill Lynch estimates 2018 US GDP growth of 2.4% allowing for tax cuts)
- Very low unemployment (4.1% according to the Bureau of Labor Statistics)
- Decent S&P 500 earnings (Merrill Lynch estimates a 2018 rise of 8% allowing for tax cuts)
- Reasonable market valuation (the current PE ratio is 22 and we view the appropriate baseline at 25)

We view the prospect of a healthy economy as the main catalyst for our 2018 stock return expectation.

The Fed Hiked Interest Rates Three Times In 2017 And Expects To Do The Same In 2018

The Federal Reserve (the Fed) maintains a stable monetary environment through its rate policies. It has a dual mandate: full employment and stable prices (inflation target of 2%). Expansive monetary policy (sometimes called "loose" or "dovish") is when the Fed lowers rates to promote economic growth - this is what Chair Ben Bernanke did at the end of 2008. Restrictive monetary policy (sometimes called "tight" or "hawkish") is when the Fed raises rates to combat inflation from GDP and wage growth - this has started and should continue.

The unemployment rate has fallen to 4.1% (meeting the criteria of full employment) and inflation has reached 1.7% (source: Bureau of Labor Statistics). We expect higher inflation due to wage pressures (unemployment is expected to fall to 3.9% in 2018). On December 13, the Fed hiked interest rates by 0.25%. It was the third 0.25% Fed Funds rate hike in 2017. Outgoing Chair Janet Yellin noted "this change highlights that the committee expects the labor market to remain strong, with sustained job creation, ample opportunities for workers and rising wages." She also noted that her nominated successor, Jerome Powell, has been part of the consensus shaping the Fed's gradual rate-hike strategy. The Fed anticipates three more rate hikes in 2018.

Fed Policy Provides Great Insight To Market Expectations And Portfolio Strategy

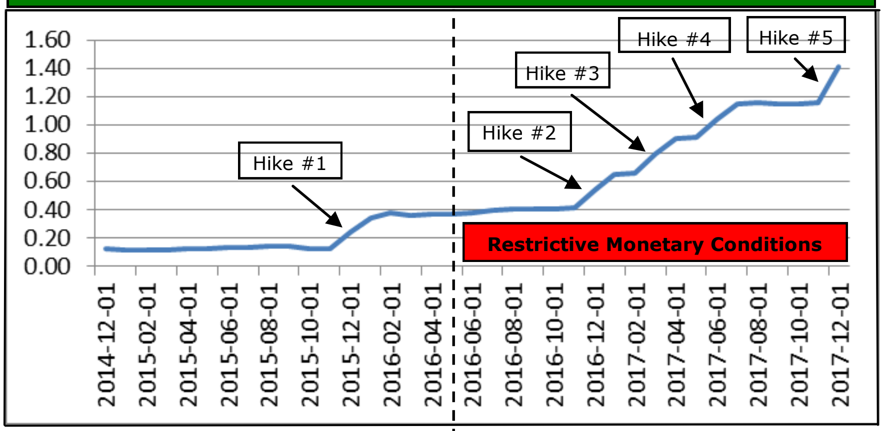
In a book titled "Invest With The Fed", the authors (Robert Johnson, Gerald Jensen, Luis Garcia-Feijoo) use two Fed signals to forecast security market performance: the Fed Funds Rate and the Fed Discount Rate. The Fed Funds Rate is the interest rate that depository institutions (banks, savings and loans, credit unions) charge each other for overnight loans. The Fed Discount Rate is the interest rate that Federal Reserve Banks charge when they make overnight collateralized loans to depository institutions. When rates are not moving in tandem, we have "Indeterminate Monetary Conditions". When both rates are simultaneously falling, we have "Expansive Monetary Conditions". When both rates are simultaneously rising, we have "Restrictive Monetary Conditions".

We believe there are important lessons to learn from "Invest With The Fed" regarding sound portfolio strategy amidst restrictive monetary conditions.

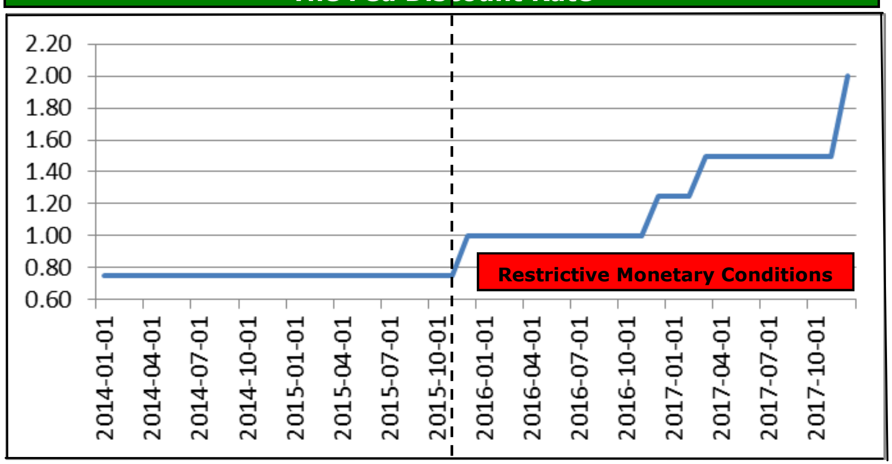
We Have Entered Restrictive Monetary Conditions

The Fed Funds Rate has been hiked five times (0.25% per hike) since the rate went to zero at the end of 2008. We have entered "Restrictive Monetary Conditions" - the Fed Funds Rate and Fed Discount Rate are simultaneously rising. With three more anticipated Fed Fund rate hikes in 2018, this trend should continue.

The Fed Funds Rate



The Fed Discount Rate



Source: Federal Reserve Bank Economic Data (FRED)

Why We Believe The S&P 500 Index Will Rise 6% In 2018

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. This means two-thirds of the historical returns are between a loss of 10% and a gain of 30%. The average S&P 500 Index return under "restrictive monetary conditions" is roughly 6% - which is our estimate for 2018. Who else agrees with us?

TriVant's S&P 500 Index Prediction For 2018: Slightly Pessimistic Versus The Crowd

2018 Prediction (Starting Point: 2674)	Appreciation % (Approximate)	Firm(s) (Source: CNN Business Insider)
2750	+ 3%	Morgan Stanley
2800	+ 5%	Merrill Lynch, Citigroup
2835	+ 6%	TriVant
2850	+ 7%	Goldman Sachs, Deutsche Bank
2950	+ 10%	Bank of Montreal
3000	+ 12%	JPMorgan Chase, Oppenheimer, Credit Suisse

Adjustments Under Restrictive Monetary Conditions

We derive great portfolio strategy insights from "Invest With The Fed". Here are the highlights of the study.

	MONETARY CONDITIONS - JANUARY 1966 TO DECEMBER 2013			
(Annualized Average Returns)	**All (576 Months)**	**Expansive (172 Months)**	**Indeterminate (209 Months)**	**Restrictive (195 Months)**
S&P 500 Return	**10.56%**	**15.18%**	**11.10%**	**5.89%**
S&P 500 Return 1970 - 2013		16.17%	9.67%	7.95%
EAFE Index Return 1970 - 2013		13.24%	12.54%	7.26%
Emerging Markets 1988 - 2013		8.48%	17.78%	**16.53%**
Consumer Goods Sector		16.52%	14.95%	**8.36%**
Food Sector		18.61%	14.39%	**7.00%**
Financials Sector		14.95%	14.55%	**6.88%**
Retail Sector		27.03%	10.39%	**1.68%**
Mining Sector		21.76%	13.62%	**2.19%**
Auto Sector		25.42%	9.03%	**(1.28%)**
10-Year Treasury Note	7.26%	6.44%	8.82%	6.30%
1-Month Treasury Bill	5.05%	4.26%	5.17%	5.62%
Corporates (Investment Grade) 1973 - 2013		8.97%	10.05%	**5.01%**
Inflation Rate (Annualized)	4.16%	2.86%	4.33%	5.13%

= OUTPERFORM **= UNDERPERFORM**

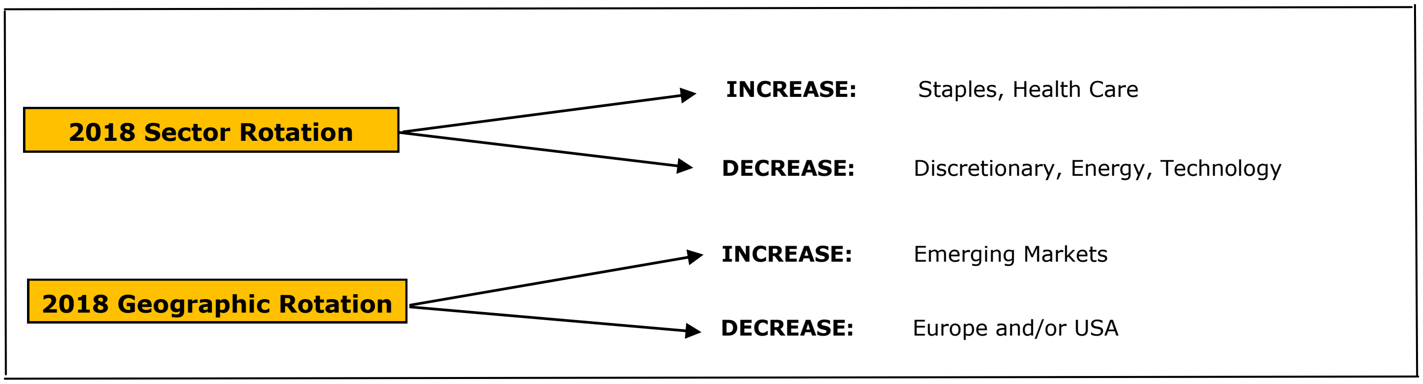
While the S&P 500 Index has "baseline" performance (+10.56% annualized average returns from 1966-2013) under all monetary conditions, there is a stark contrast between expansive (+15.18%) and restrictive (+5.89%) conditions. Knowing this trend should drive portfolio strategy. Higher Fed rates also drive bond decisions.

Lessons From "Invest With The Fed" - Adjustments Under Restrictive Conditions

Observation Under Restrictive Conditions	Portfolio Action
S&P 500 Index Performs Below Baseline Average	Rotate to higher quality (defensive) stocks
Emerging Markets Out-Perform S&P 500 Index	Increase Emerging Markets
EAFE Index Does Not Out-Perform S&P 500 Index	Maintain or Reduce European Exposure
Corporate Bonds Under-Perform Other Bonds	Reduce Corporate Bonds Increase Treasurys
Higher Inflation	Maintain TIPS (Inflation-Protected Bonds)

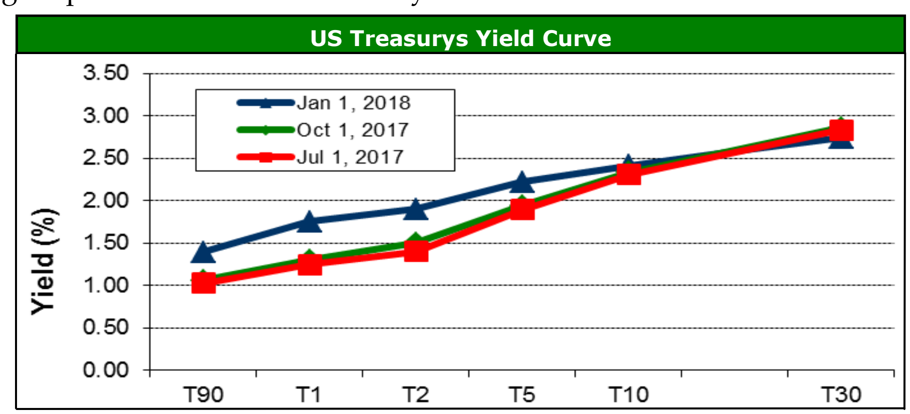
Stocks: Potential Portfolio Adjustments In 2018

Since we anticipate the S&P 500 Index will perform below (6%) its baseline (10%), we anticipate a rotation to higher quality (defensive) stocks. We also anticipate a slightly higher emphasis on Emerging Markets.

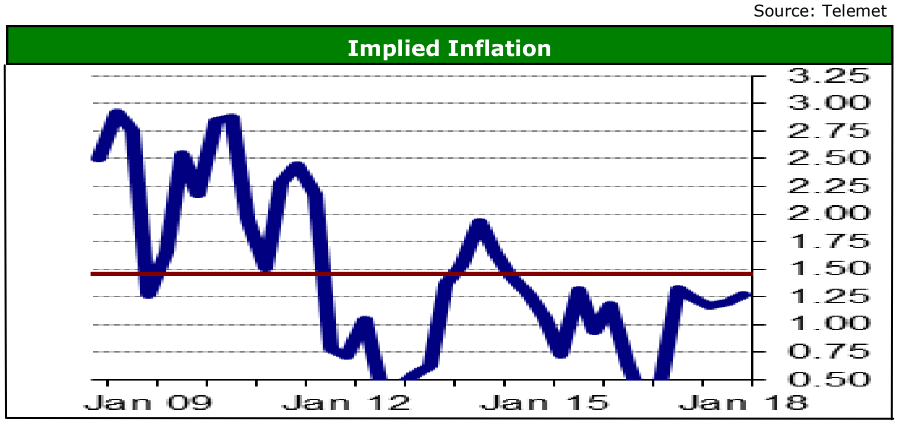


Bonds: Potential Portfolio Adjustments In 2018

The yield curve has risen. Our current target bond weighting is short-term corporates (27.5%), long-term corporates (20%), long-term inflation protected bonds (commonly known as TIPS, 17.5%), short-term TIPS (20%), and mortgage-backed securities (15%). We feel comfortable with our target duration (4.68 years). Treasurys minus TIPS implies an expected inflation of 1.22%. Since we think inflation will exceed 1.22%, maintaining TIPS makes sense in terms of inflation protection. However, there is a rationale to reduce corporates. The spread between the Moody's Corporate Baa yield and the 5 year constant maturity Treasury has dropped to 1.99% versus 2.93% a year ago. The corporate tax cut will further narrow the spread because more cash available for debt repayment further reduces bond default risk. The narrower the spread between corporates and Treasurys, the less worthwhile it is to own corporates from a risk/return tradeoff. We anticipate reducing corporates in favor of Treasurys.



Source: Telemet



Source: Telemet

Our 2017 Market Prediction Was Dead-On!

We predicted the S&P 500 Index would rise 20% in 2017 and that is exactly what happened. Our prediction was exceedingly bold at the time because the consensus forecast was only 5%. We felt confident going into 2017 because one party had control of everything - the House, the Senate, and the Presidency. The prospect of passing legislation was very high. These were our thoughts:

"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."

We went on to show 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 P/E = 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**

As we anticipated, the new Administration enacted many changes in 2017 that were positive for the market.

1. Corporate Tax Rates

The tax reform which passed by year-end was the biggest overhaul of the US Tax Code in three decades. Certainly the headline news was a large cut in the corporate tax rate from 35% to 21%. There were two other significant benefits given to companies that got less media attention. Capital expenses can now be fully deducted for tax purposes. Also, there are now lower levies on repatriating overseas profits. The tax cut will make companies more profitable, which could translate to capital investment and hiring as well as higher dividends and stock buybacks. The full deductibility of capital expenses will encourage company investment and expansion. Repatriated profits will further facilitate capital spending and hiring.

2. Financial Market Regulations

Not only was there deregulation that took place in the financial industry, there was significant deregulation in a wide spectrum of industries. Quite simply, companies now have a lot more freedom to do what they want. From an investor standpoint, this change was enthusiastically received.

3. Infrastructure Spending

The agenda for infrastructure spending was initiated in 2017 but ended up being pushed to 2018. Stay tuned.

2017 - A Remarkably Smooth Market Ascent

We reflect on 2017 as a year of a remarkably smooth market ascent in the midst of constant political turbulence. The S&P 500 Index performance was literally identical to our initial forecast - it rose 21.83% in 2017 (we anticipated a 20% rise in our Quarterly Insights January 2017 report). For his inaugural year, Donald Trump trumpeted five objectives: cut the US corporate tax rate from 35% to 15%, reduce financial markets regulation, boost infrastructure spending, repeal Obamacare, and save American jobs. The corporate tax rate was ultimately lowered to 21%, a very significant change to the tax code and great news for companies. Deregulation was enacted across many industries including banks. The proposed 10-year $1 trillion infrastructure spending agenda has been pushed to this year. While Obamacare itself was not repealed, the individual mandate clause of Obamacare was repealed under the tax reform. The S&P 500 Index rose in four consecutive quarters (6.07%, 3.09%, 4.65%, and 6.64%) despite considerable wrangling (Obamacare and tax reform) and continual jawboning with North Korea.

1. Nominal Regional Performance Disparity With Developed Markets

US performance was in line with other developed markets. Emerging Markets (EM) led in 2017, primarily driven by China (+54.07%). India (+38.76%) and Brazil (+24.11%) fared well - Russia (+5.20%) did not. EM out-performance steadily lost momentum as the year progressed (5% in Q1, 3% in Q2 and Q3, and 1% in Q4).

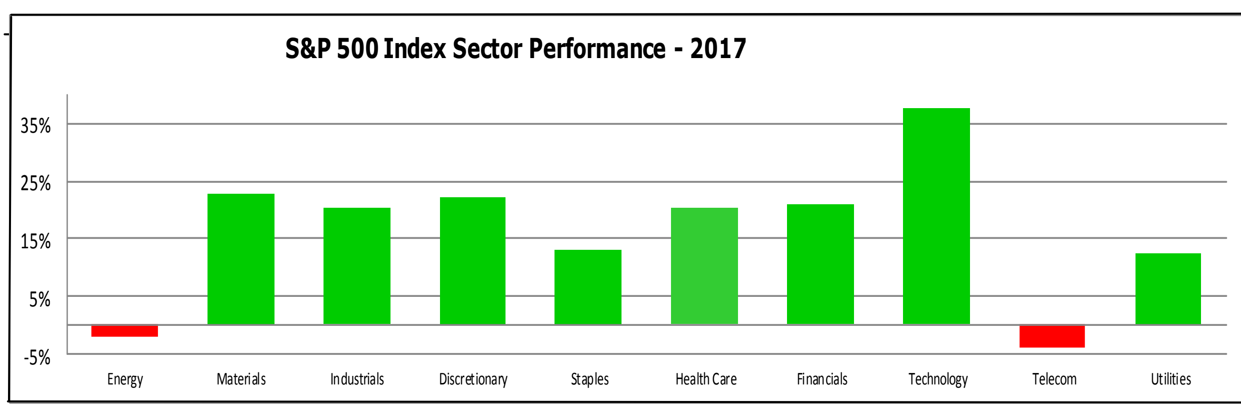
Equity Index Performance

Index	2017
S&P 500 (Domestic)	**21.83%**
MSCI EAFE (Foreign) *	**25.03%**
MSCI Emerging Markets	**37.28%**
MSCI EMU (European Monetary Union)	**28.06%**
MSCI Japan	**23.99%**

* Europe, Australia and the Far East

2. Technology Dominated Sector Performance

Only one sector significantly out-performed the S&P 500 Index: Technology (+37.54%). In order to out-perform the S&P 500 Index in 2017, it was literally imperative to have some exposure to the high-running "FANG stocks": Facebook, Apple, Netflix, and Google. Fortunately we did.



Tax Reform May Change How You Want To Make Charitable Contributions

Under the new tax plan approved by Congress, the standard deduction - the amount taxpayers can subtract from their taxable income without itemizing deductions - will rise to $12,000 for individuals and $24,000 for married couples. Unless an individual has eligible deductions that total more than $12,000, he/she will not itemize and simply claim the standard deduction. The same logic applies at a $24,000 threshold for married couples. Potential itemized deductions include state/local taxes (limit up to $10,000), mortgage interest (interest paid for up to $1,000,000 in mortgage debt for existing homeowners and $750,000 for new homeowners), and charitable deductions (capped at 30% of adjusted gross income for gifting low-cost-basis stock and 50% for gifting cash). The new tax plan may change how you want to make charitable contributions.

"Bunching" Charitable Contributions May Be Your Best Strategy

Assume you are single and have no itemized deductions other than annual charitable contributions. Instead of making gifts in successive (separate) years, you can gift in a staggered fashion ("bunching") to get a higher amount contributed in one year to get over the standard deduction threshold. By doing so, you will still ultimately gift the same amount, but will be better off tax-wise. To illustrate, assume you want to gift your favorite charity $12,000 a year for four successive years. You will be better off from a tax standpoint to "bunch" the gifts to every other year (itemizing your charitable contribution in one year and taking the standard deduction the following year), and even better off if you "bunch" the gifts to one year.

No Bunching	**2018**	**2019**	**2020**	**2021**	**Total**
Standard Deduction	$12,000	$12,000	$12,000	$12,000	
Charitable Gift	$12,000	$12,000	$12,000	$12,000	$48,000
Tax Decision - Standard Deduction or Itemize:	**Indifferent**	**Indifferent**	**Indifferent**	**Indifferent**	-
Total Deduction For Taxes	$12,000	$12,000	$12,000	$12,000	**$48,000**
Bunching Every Other Year					
Standard Deduction	$12,000	$12,000	$12,000	$12,000	
Charitable Gift	$24,000		$24,000		$48,000
Tax Decision - Standard Deduction or Itemize:	**Itemize**	**Standard**	**Itemize**	**Standard**	-
Total Deduction For Taxes	$24,000	$12,000	$24,000	$12,000	**$72,000**
Bunching In One Year					
Standard Deduction	$12,000	$12,000	$12,000	$12,000	
Charitable Gift	$48,000				$48,000
Tax Decision - Standard Deduction or Itemize:	**Itemize**	**Standard**	**Standard**	**Standard**	-
Total Deduction For Taxes	$48,000	$12,000	$12,000	$12,000	**$84,000**

A "Donor Advised Fund" Will Facilitate "Bunched" Charitable Contributions

It may appear that "bunching" charitable contributions will not be good for your charity because gifts will be staggered versus annual. No worries, there is a solution! Through a "donor advised fund" (which is available at large institutions such as Charles Schwab), you can make a contribution in one year that can cover several years of future contributions. You are entitled to the charitable contribution tax deduction in the year you make the contribution to the fund, even though you may choose to distribute the funds to your charity over many years. We used a simple example to illustrate "bunching". In reality, how to best gift from a tax efficiency standpoint will be more complicated. Please contact us regarding your situation.

Your Portfolio

We made several portfolio adjustments in 2017 to respond to changing market conditions. We plan to do the same in 2018. Our 2017 market prediction proved dead-on but this will not always be the case. As your portfolio manager, we are not dealing with market certainty and we are always ready to adjust on the fly. In looking ahead, we are confident in the market and its underlying fundamentals.

With nine consecutive years of positive S&P 500 Index performance (2009 - 2017), 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 2017 with the relatively conservative bond component of your portfolio. This added to the relatively larger gains in your stock component.

You may have noticed we added a new section to our report (Financial Planning Spotlight). We have invested in technology to enhance our financial planning service capabilities. Going forward, we will be able to serve you even better. Congratulations to Michael on attaining the Certified Financial Planner™ (CFP®) certification.

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

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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.