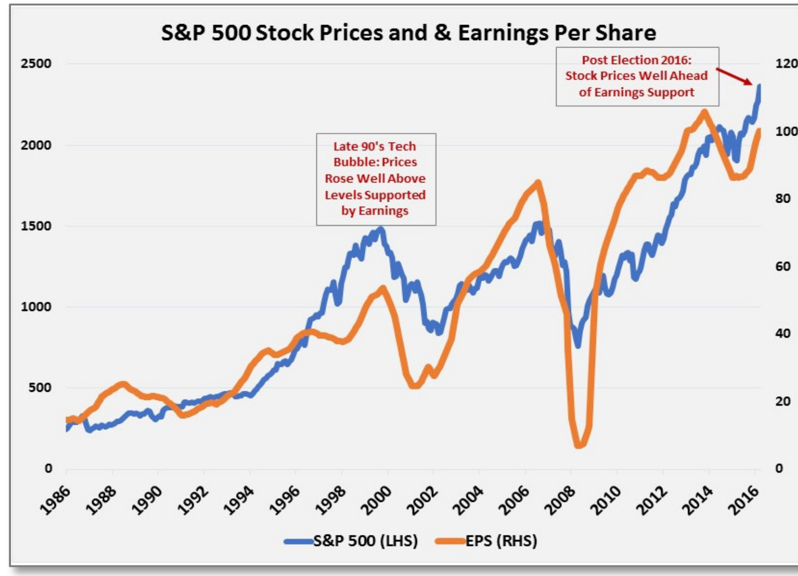


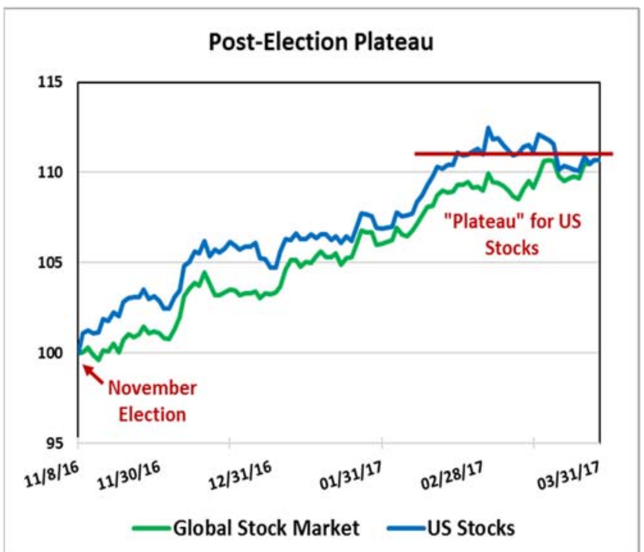
To: Aequitas Client

From: Aequitas Investment Advisors

Subject: The Post-Election Plateau

Dear Client,

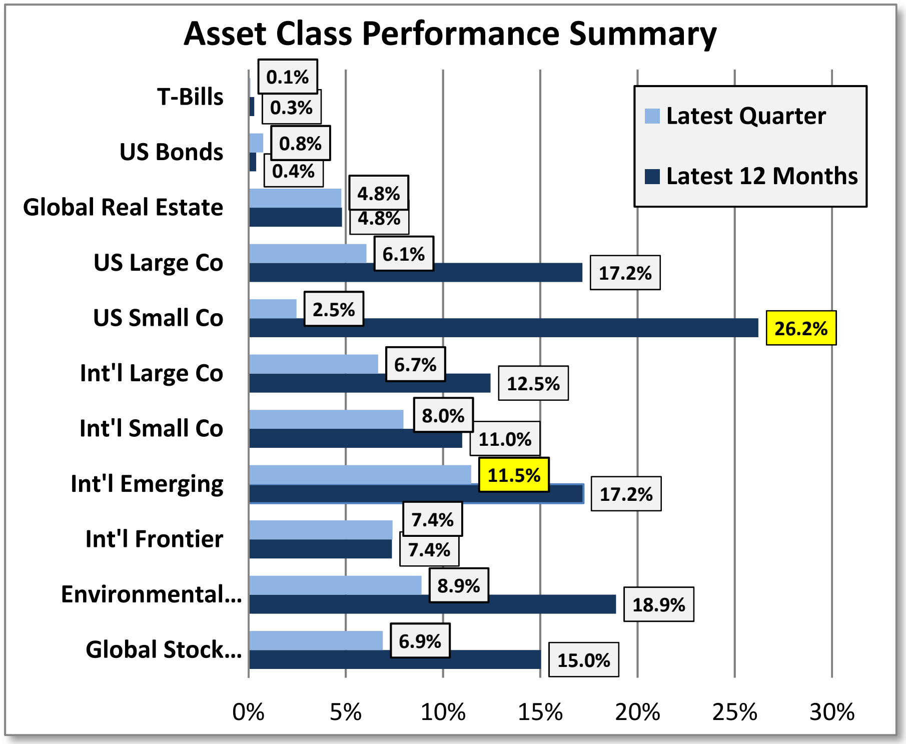
Following a three-month surge of investor optimism after the election, the US stock market appears to have reached a plateau as investors await greater assurance that pro-growth promises of lower taxes, less regulation and infrastructure spending will become a reality. The recent failure to pass a healthcare bill created consternation and concern that divisions within the Republican Party might complicate or delay the enactment of President Trump's major economic initiatives. However, given that we're still in the early days of the new administration, most political observers give Trump and his team the benefit of doubt in their ability to work with Republicans in Congress to move forward on their economic agenda. Certainly, the stock market expects such an outcome.



Since the election, US stocks have gained more than 10% fueled by the anticipation of pro-growth policies as well as continued reports of economic expansion (the recovery which began in 2009 is now the third longest in US history). While US stocks have apparently hit a plateau, foreign stocks outperformed recently as investors have turned their attention toward what appear to be more attractive stock valuations overseas. As for US stocks, many pundits believe the post-election surge has driven prices into over-valued territory and that future returns may be disappointing. The odds of a stock market correction at this point are high (more on this below). To be sure, there are many green arrows for the US economy, including employment trends and high levels of confidence expressed by consumers, corporate CEO's, and small businesses. High levels of confidence may bode well for the economy (and ultimately stocks), but investors may have become overly optimistic as stock prices have risen well above their normal relationship to corporate earnings. At present, stocks in the S&P 500 Index are trading at an average multiple of about 20 times earnings (i.e., a Price-to-Earnings Ratio of close to 20) compared to the average historical range of 15-16 times earnings. We created the chart above to compare the prices of stocks in the S&P 500 to their underlying earnings per share (EPS) over the past thirty years. Note how stock prices (blue line) have risen above the EPS (orange line) over the past twelve-months. Putting aside the collapse of earnings in the Great Recession, the only other time stock prices rose significantly above their earnings support level was during the Tech Stock Bubble of the late 90's when prices surged to an irrationally

U.S. Indicators	
↑	Consumer Confidence
↑	Employment Trends Index
↑	Leading Economic Index
↑	CEO Confidence
↑	Small Business Confidence
↑	Corporate Earnings Trend

Sources: The Conference Board, Reuters, NFIB exuberant 35 times earnings. While US stock prices today are far from the Tech Bubble extremes, they are nonetheless high relative to historic valuation measures. There are several means by which stock prices might "correct" back to fair value levels: (1) stock prices could fall precipitously should the economy take an unexpected turn for the worse; (2) stock prices might seesaw as they have been for the past few months while corporate earnings gradually rise to provide underlying price support; or (3) stock prices might correct over a long period of time which would imply disappointing stock returns perhaps for the next 5-10 years. Fortunately, not all stocks around the globe are in over-valued territory and there are even value stocks in the US which are more favorably priced than the highest priced stocks within the S&P 500. We'll delve deeper into correction scenarios and future expectations at the end of this report, but first let's review the latest surprisingly positive performance results for the various asset classes around the globe.



Asset Class Performance Review

For the latest quarter, returns for all major asset classes were positive in reflection of growing optimism in the US and abroad where many economic indicators have either stabilized or improved, especially in the Emerging Markets which delivered a gain of 11.5% for the quarter (Spencer Henderson will be emailing a special Chart Room report on the Emerging Markets shortly). While the US stock market appears overvalued with a P/E Ratio of close to 20, stocks in Europe, the UK and Japan are trading at multiples between 14 and 15 times earnings with stocks in the Emerging and Frontier Markets trading at 12 to 13 times earnings. In recognition of lower valuations overseas, investor capital flows have shifted toward non-US markets as evidenced by the recent performance figures. The International Developed Markets delivered returns ranging from 6.7% to 8.0% while US stocks gained between 2.5% (US Small Co's) and 6.1% (US Large Co's). The Environmental Markets gained a healthy 8.9% as investors saw opportunities in water resource management and energy efficiency companies. Global Real Estate gained 4.8% for the quarter. US Bonds squeaked out a gain of less than 1% and US T-Bills were basically flat. Overall, a surprisingly positive quarter for the Global Stock Market (+6.9%).

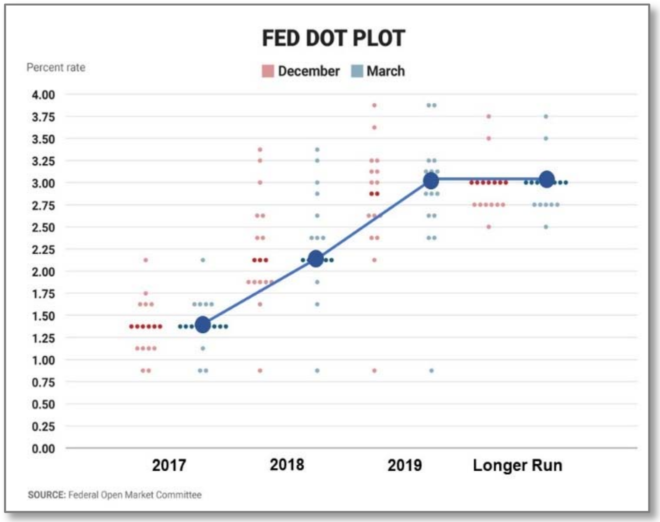
For the trailing twelve-months, there were strong gains around the globe as stocks recovered from the major correction in early 2016 (stocks had fallen by 13% during the first quarter of 2016). The biggest gains came from US Small Co's (+26.2%), US Large Co's (+17.2%), Environmental Markets (+18.9%) and Emerging Markets (+17.2%). Next in line were Int'l Large and Small Co's at +12.5% and +11% respectively. The Frontier Markets (+7.4%) and Global Real Estate (+4.8%) were next. US Bonds lagged (+0.4%) due to the impact of rising interest rates; US-T-Bills were barely positive (+0.3%).

What's in the Dots?

(Interest Rate Update from Michelle Fallon, CFP)

In March, the Federal Open Market Committee (FOMC) led by Janet Yellen raised the Fed-Funds interest rate by twenty-five basis points from 0.75% to 1.0% (this is the overnight rate banks charge each other to lend reserve balances, but it also has an impact on short-term bond yields). This move, which was widely anticipated by the financial markets, sets the Fed on a likely path of regular interest rate hikes ahead. Post meeting comments by Chair Yellen indicate a consensus by the Committee for additional rate hikes in 2017, and beyond, as exhibited in the most recent Fed "Dot Plot" chart on the next page.

In 2011, Janet Yellen, then Fed vice-chair, and a group of committee members were working on a strategy to better convey the Fed's expectations for future interest rate hikes to the public, in what later became the Fed's Dot Plot. Published after each Fed meeting, the Dot Plot shows the interest rate projections of the individual members of the FOMC. The individual "dots" represent each member's projection with the blue line being the consensus which indicates continued tightening of monetary policy with a Fed-Funds rate of 1.4% by the end of 2017, slightly above 2.0% for 2018 and reaching a high of 3.0% in 2019. Of course, we must keep in mind the Fed's monetary policy is data dependent and will continue to adjust based on economic fundamentals, inflation, and global events. Nonetheless, the Fed's Dot Plot is one of the many tools we use at Aequitas to help guide our investment thought process, including our current Fixed Assets strategy of remaining invested in high-quality, short-term bonds as rates continue to rise toward more normal levels.



SOURCE: Federal Open Market Committee

Three Possible "Correction" Scenarios for US Stocks

Stock market corrections (i.e., a short-term drop in stock prices of at least 10%) are rather common events occurring on average about once every twelve months. Over the past seven years, we've experienced five corrections (fewer than the average), but we've also experienced two "mini-corrections" of between 6% and 7%. The last stock market correction was in January and February of 2016 when the market fell by about 13% as concerns about China's growth and plummeting oil prices came to the forefront. As mentioned in the opening section of this report, there are several ways stocks can correct back to more sustainable price levels in relationship to corporate earnings. Outlined below are three possible scenarios; the first is more painful in the short-term, the second is the most optimistic while the third spreads the pain out over a longer period:

1. **__Fast and Painful__**: At current levels, US stock prices have arguably priced-in much of the anticipated benefits of the Trump administration's pro-growth policies. Should future developments disappoint investor expectations, or if we experience a geopolitical event harmful to the economy, investors might react by selling stocks and moving into low-risk assets such as cash or short-term bonds. Whatever might trigger a sell-off, stock prices could fall precipitously to adjust to a different set of economic assumptions. Given their frequency, corrections are an inherent risk of owning stocks and one reason patient investors have been rewarded over the long-term for accepting the risk of volatility. As Robin Wigglesworth, US Markets Editor of the Financial Times, wrote recently, "Corrections are the necessary wildfires of financial markets. They might be painful and even scary, but sell-offs clear out the froth and leverage that could build up into something far more dangerous unless checked by periodic bouts of turbulence." Of course, corrections offer long-term investors an opportunity to purchase stocks at lower prices; perhaps even at bargain prices. For these reasons, we recommend balanced portfolios for each of our clients in order to dampen stock market volatility as well as to provide liquidity for rebalancing when prices are low.

2. **__Economic Growth and Corporate Earnings Surprise to the Upside:__** At present, many economists are forecasting a pick-up in corporate earnings given various positive economic indicators and the promised additional stimulus of lower corporate tax rates, a more favorable regulatory environment and infrastructure spending. Under this optimistic scenario, corporate earnings might rise sufficiently to support *current* stock price levels and we might avoid a significant correction, at least in the short-term. However, even under this scenario, stock prices might not rise much further in the near-term given that much of the earnings optimism is already priced in.

3. **__The Market Slowly Corrects__**: Another possibility is that stock prices

might correct over a long period of time. Such a scenario is consistent with the thinking of Robert Shiller, Nobel Prize winning economist at Yale University. In a recent New York Times article, he agrees that bullish sentiment might drive stock prices even higher from today's levels, but he cautions that the US stocks are "quite expensive" and while no one can predict what will happen in the short-term, his analysis of past stock market behavior leads him to conclude that we may experience disappointingly low rates of return for US stocks over the next decade.

Our Job as Financial Planners

Perhaps one of the most important responsibilities and challenges of our work as financial planners is guiding our clients toward the achievement of their financial goals through both favorable and unfavorable economic conditions. While we cannot predict the future, we can certainly improve the odds of a successful outcome by applying important investment lessons learned from the past, such as avoiding market-timing, as well as examining current investment research which might provide guidance about the future. In preparing long-term financial projections for our clients, it is necessary to make assumptions about the possible future returns of more than 25 different asset classes as well an assumption about future rates of inflation. We routinely review our long-term assumptions based upon the economic outlook, stock market valuations and various other economic factors. Earlier this year, we examined the capital markets forecasts of several well-respected investment research firms and have indicated the range of their ten-year forecasts in the table below (we also included the actual annual returns for the past 15-years for comparison). Factors considered in the future forecasts include the current stock valuations in each asset class, future economic growth assumptions for the various countries and regions around the globe, the direction of interest rates and future inflation rates. Note the wide range of returns for US Equities (2.3% to 6.6%) compared to the past 15-year average return of 7.1%. The low forecast of 2.3% is due to the high valuation of US Equities (P/E Ratio of 19.6 compared to the historic average range of 15-16). There seems to be greater optimism for non-US Equities which makes sense given their more favorable valuations (note their lower P/E Ratios). Fixed Assets (bonds) are expected to provide lower than historic average returns with a narrow range of 2.5% to 2.8% over the next 10-years; considerably lower than the past 15-year average of 4.1%.

10-Year Future Annual Rate of Return Forecasts

Asset Class	Current Price-to-Earnings Ratio	Low Forecast	High Forecast	Past 15-Yr Avg
US Equities	19.6 x	2.3%	6.6%	7.1%
Non-US Dev. Equities	14.7 x	5.5%	8.4%	5.5%
Emerg. Mkts Equities	11.9 x	9.3%	10.5%	10.2%
Global Equities Mix		4.7%	7.3%	6.9%
Fixed Assets		2.5%	2.8%	4.1%
50% Fixed - 50% Equities		3.7%	4.7%	5.5%
40% Fixed - 60% Equities		3.9%	5.2%	5.8%
20% Fixed - 80% Equities		4.3%	6.0%	6.4%
Inflation		1.7%	2.3%	2.1%

In the red box at the bottom of the table are rate of return forecasts for balanced portfolios which combine Fixed Assets (bonds) and Equities (stocks) with the assumption that the stocks are globally diversified. For a 40% Fixed and 60% Equities portfolio, the expected 10-year return ranges between 3.9% and 5.2% which is lower than the 5.8% return for the same asset mix over the past 15 years (a period which includes the Great Recession during which stocks fell by more than 50%). The expected return ranges for the other asset mixes are similarly lower than their past 15-years averages. One of the primary reasons for the reduced forecasts is that bonds are expected to deliver returns barely greater than the rate of inflation (a range of 2.5% to 2.8% for bonds versus inflation at 1.7% to 2.3%). Over the past 15-years, investors benefited greatly from relatively high returns on bonds (4.1%) which provided a major tail wind we will most likely not experience over the next 10-years. On the bright side, the expectation is that inflation will remain relatively low.

Closing Thought

With an even greater set of economic and geopolitical uncertainties on the horizon, the process of reviewing and updating our long-term financial plans will be particularly challenging. Yet, we can improve the odds of reaching our goals by maintaining discipline and structuring our portfolios with a balance of safe-haven and growth assets designed to help us weather the inevitable ups and downs of the markets. As financial partners with each of our clients, the entire team at Aequitas is dedicated to making the lifelong investment journey as successful as possible.