Strategy Asset Managers

MARKET ENVIRONMENT

The post-election rally continued to have legs for the first two months of 2017 with both the S&P 500 index and the Dow Jones Industrial Average peaking on March 1, 2017 as hopes for the new Administration's plans for tax reform, infrastructure spending, and reduced business regulation combined with strengthening economic fundamentals to drive the market. From the market close on Election Day (November 8^{th}) through March 1, 2017, the S&P 500's total return was a robust 12.8%. However, with the political realities of how long it takes Washington to accomplish anything, the market post March 1, settled into a narrow trading range.

The markets have started strong. For the first quarter, the S&P 500 Index returned an impressive 6.1% while our Global Equity index returned an equally impressive 6.3% as the non-US MSCI-EAFE index returned 7.4% during the quarter- its best quarterly showing since the third quarter of 2013.

For the quarter, the US Bond market returned 0.8% as measured by the Bloomberg Barclays Government/Corporate Intermediate Index- a respectable return considering the Federal Reserve once again hiked the Federal Funds target rate by another 0.25% on March 15^{th} following last December's increase. The Federal Open Market Committee has projected that there will be two more 0.25% increases this year pending sufficient economic activity…we shall see.

The Information Technology sector led the stock market in the first quarter (+12.6%) as hardware manufacturers and software companies all contributed to a broad advance within the sector. The continued movement of data to the "cloud" and the increasing use of technology in more products provided sound fundamentals for the sector's advance.

Despite the poor performance of "brick and mortar" retail in recent months, the Consumer Discretionary sector was the second best performer in the first quarter (+8.1%) as the US consumer continues to spend albeit in a changing fashion. We believe that ten years from now the 2016 Holiday Season will be seen as the turning point in consumer preference for internet shopping vis-à-vis physical stores.

The first quarter of 2017 brought about a reversal of fortune for the Energy sector which we noted as one of the leaders in the fourth quarter of last year. For the quarter, the Energy sector was the worst performing S&P sector, falling 7.3% in price. While OPEC has seemingly held together its reduced production quotas, a rapid and sharp decrease in the cost of lifting oil from the numerous shale projects across the US has brought back US production and contributed to the glut in many energy products. Telecommunications was the only other sector that fell in price during the first quarter (-5.1%) as price wars and slowing numbers of subscribers weighed on stock prices. Led by the sub-par performance of the Energy and Telecom sectors, "Value" investing once again took a backseat to "Growth" with the S&P 500 Growth Index (+8.5%) outperforming the Value Index (+3.3%) by 5.2% for the quarter.

The Market Environment reflects the views of the Investment Advisor only through the date of this report. The Investment Advisor's views are subject to change at any time based on market and other conditions. Please refer to the disclosure at the end of this report. Past performance is no guarantee of future returns. Portfolio characteristics are subject to change, and shown for illustrative purposes only. A complete list of securities held in the portfolio for the past year is available upon request. March 31, 2017

MARKET ENVIRONMENT

OUTLOOK

While President Trump's election receives a lot of credit as the impetus for the recent move up in the stock market, we also believe the economy was in the process of improving before he took office. With confidence indicators moving upward, an uptick in wage growth and a global economy that finally seems to be above stagnation, we believe the baseline for US economic growth remains approximately 2% with 2% inflation. In fact, economic projections of Fed officials for 2017 through 2019 center around the same 2% growth and 2% inflation numbers.

We would like to point out that 2% economic growth and 2% inflation is not an awful environment for companies to be operating in. On average, over the past three years, the S&P 500 has returned approximately 9% per year within what has basically been a 2% growth and 2% inflation setting. At a minimum, we believe these fundamentals will remain intact. If the new administration is successful in even some of its pro-business initiatives, the upside for earnings and the markets could be meaningful.

Looking ahead, investors still have a significant "Wall of Worry" in front of them that includes rising geopolitical tensions, stock valuations above "average" historical levels, a Federal Reserve that is seemingly in a hurry to return the Fed Funds rate to a normalized level and shrinking its balance sheet, and a majority Republican party that appears to be at odds with itself. While we hope pro-business legislation and reforms triumph, we believe that the current environment presents positive upside opportunities for the markets.

March 31, 2017